Supreme Court, U.S.
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No. _____

In the
Supreme Court of the United States
October Term, 1994

NLFC, Inc.,

Petitioner,

vs.

Devcom Mid-America, Inc.,

Respondent.

Petition for Writ of Certiorari
to the United States Court of Appeals
for the Seventh Circuit

Petition for Writ of Certiorari

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QUESTIONS PRESENTED

This case arises from NLFC's claim against Devcom for copyright infringement. NLFC contends that Devcom infringed the copyright in a computer software program NLFC owned. Devcom printed on its own computers the source code of that NLFC software. The district court granted a summary judgment in favor of Devcom, and the court of appeals affirmed, holding that Devcom's action did not constitute "copying" under the Copyright Act.

1. Did the court of appeals err in affirming the district court's summary judgment ruling that a party's printing of a physical copy of the source code of a computer software program does not constitute "copying" that would support a claim of copyright infringement?

2. Did the court of appeals err in construing a local rule of the Northern District of Illinois in such a way as to obviate the standards of rule 56 of the Federal Rules of Civil Procedure, thereby improperly allowing a party to obtain a summary judgment essentially by default?

LIST OF PARTIES

The following is a list of all parties to the proceeding in the United States Court of Appeals for the Seventh Circuit, whose judgment is sought to be reviewed:

Petitioner: NLFC, Inc.

Respondent: Devcom Mid-America, Inc.

Neither party has parent companies or subsidiaries within the meaning of Supreme Court Rule 29.1.

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TO THE UNITED STATES SUPREME COURT:

Pursuant to 28 U.S.C. § 1254, NLFC, Inc., asks this Court to issue a writ of certiorari to review the opinion issued on January 19, 1995 by the United States Court of Appeals for the Seventh Circuit.

OPINIONS AND JUDGMENTS BELOW

Petitioner has reproduced in a separate appendix the opinions issued by the courts below, as follows:

NLFC, Inc. v. Devcom Mid-America, Inc., 45 F.3d 231 (7th Cir. 1995) (court of appeals' decision)

NLFC, Inc. v. Devcom Mid-America, Inc., No. 93 C 0609 (N.D. Ill. Feb. 3, 1994) (district court's judgment)

NLFC, Inc. v. Devcom Mid-America, Inc., No. 93 C 0609 (N.D. Ill. Jan. 4, 1994) (district court's order)

NLFC, Inc. v. Devcom Mid-America, Inc., No. 93 C 0609 (N.D. Ill. Nov. 16, 1993) (magistrate's recommendation)

JURISDICTION

The court of appeals issued its opinion January 19, 1995. Pursuant to 28 U.S.C. § 1254(1) (West 1993), this Court has jurisdiction to review the decision of the court of appeals.

STATUTES INVOLVED

17 U.S.C.A. § 101 (West Supp. 1995):

. . . .

"Copies" are material objects, other than phonorecords, in which a work is fixed by any method now know or later developed, and from which the work can be perceived, re-produced, or otherwise communicated, either directly or with the aid of a machine or device. The term "copies" includes the material object, other than a phonorecord, in which the work is first fixed.

. . . .

17 U.S.C.A. § 106(1) (West 1977 & Supp. 1995):

Subject to sections 107 through 120, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

> (1) to reproduce the copyrighted work in copies or phonorecords; . . .

17 U.S.C.A. § 501(a) (West Supp. 1995):

Anyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 or of the author as provided in section 106A(a), or who imports copies or phonorecords into the United States in violation of section 602, is an infringer of the copyright or right of the author, as the case may be. . . .

Fed. R. Civ. P. 56(c):

(c) Motion and Proceedings Thereon. The motion shall be served at least 10 days before the time fixed for the hearing. The adverse party prior to the day of hearing may serve opposing affidavits. The judgment sought shall be rendered forthwith if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any, show that there is no genuine issue as to any material fact and that the moving party is entitled to a judgment as a matter of law. A summary judgment, interlocutory in character, may be rendered on the issue of liability alone although there is a genuine issue as to the amount of damages.

Fed. R. Civ. P. 83:

Each district court by action of a majority of the judges thereof may from time to time, after giving appropriate public notice and an opportunity to comment, make and amend rules governing its practice not inconsistent with these rules. A local rule so adopted shall take effect upon the date specified by the district court and shall remain in effect unless amended by the district court or abrogated by the judicial council of the circuit in which the district is located. Copies of rules and amendments so made by any district court shall upon their promulgation be furnished to the judicial council and the Administrative Office of the United States Courts and be made available to the public. In all cases not provided for by rule, the district judges and magistrates may regulate their practice in any manner not inconsistent with these rules or those of the district in which they act.

Northern District of Illinois Local Rule 12(M), (N):

M. Motions for summary judgment; moving party. With each motion for summary judgment filed pursuant to F.R.Civ.P. 56 the moving party shall serve and file —

> (1) any affidavits and other materials referred to in F.R.Civ.P. 56(e);
>
> (2) a supporting memorandum of law;
>
> (3) a statement of material facts as to which the moving party contends there is no genuine issue and that entitle the moving party to a judgment as a matter of law, and that also includes:
>
> > (a) a description of the parties, and
> >
> > (b) all facts supporting venue and jurisdiction in this court.

The statement referred to in (3) shall consist of short numbered paragraphs, including within each paragraph specific references to the affidavits, parts of the record, and other supporting materials relied upon to support the facts set forth in that paragraph. Failure to submit such a statement constitutes grounds for denial of the motion.

If additional material facts are submitted by the opposing party pursuant to section N of this rule, the moving party may submit a concise reply in the form prescribed in section N for a response. All material facts set forth in the statement filed pursuant to section N(3)(b) will be deemed admitted unless controverted by the statement of the moving party.

N. Motions for summary judgment; opposing party. Each party opposing a motion filed pursuant to F.R.Civ.P. 56 shall serve and file—

(1) any opposing affidavits and other materials referred to in F.R.Civ.P.56(e);

(2) a supporting memorandum of law; and

(3) a concise response to the movant's statement that shall contain:

(a) a response to each numbered paragraph in the moving party's statement, including, in the case of any disagreement, specific references to the affidavits, parts of the record, and other supporting materials relied upon, and

(b) a statement consisting of short numbered paragraphs, of any additional facts that require the denial of summary judgment, including references to the affidavits, parts of the record, and other supporting materials relied upon. All material facts set forth in the statement required of the moving party will be deemed to be admitted unless controverted by the statement of the opposing party.

STATEMENT OF THE CASE

NLFC designs, develops, and maintains computer software for use in medical pathology laboratories. NLFC owns a valid copyright in the software at issue, having obtained the copyright in that software from its original designer, Lab Force.

Cabrini Medical Center ("Cabrini") in New York and Franciscan Shared Laboratory ("FSL") in Wisconsin were both licensed users of NLFC's copyrighted software. Cabrini's license agreement strictly prohibited Cabrini from copying the software and from providing copies to third parties such as Devcom. In 1989, FSL entered into a similar license agreement which also prohibited unauthorized copying.

Cabrini and FSL had separately hired Devcom as a computer consulting company. They asked Devcom to modify the NLFC software. Devcom thereby obtained access to the NLFC software licensed to Cabrini and FSL. Devcom then exploited its access to NLFC software by printing at its Chicago offices a physical print-out containing a "viewable print-out" of the NLFC software source code.

NLFC filed suit against Devcom alleging copyright infringement and related state law claims. The district court thus had jurisdiction of NLFC's claim of copyright infringement pursuant to 28 U.S.C. §§ 1331, 1338(a) (West 1995). The court could exercise supplemental jurisdiction over the state law claims. 28 U.S.C. § 1367 (West 1995).

Devcom filed a summary judgment motion as to all the claims. In response, NLFC filed deposition excerpts and

other evidence, as well as its brief opposing Devcom's motion. Devcom's motion contained a list of the facts it claimed were not in dispute, pursuant to Rule 12(M) of the court's local rules. NLFC's response similarly contained a list of the facts it claimed were in dispute, pursuant to rule 12(N) of the court's local rules.

The court referred the matter to a magistrate, who eventually filed a memorandum which recommended that the district court should grant summary judgment because (1) Devcom's creation of a "viewable print-out" allegedly for modification purposes did not constitute infringement of copyright, and (2) NLFC's licensing agreements with Cabrini and FSL permitted third parties such as Devcom to make copies of the NLFC software.

The district court, over NLFC's objection, entered an order accepting the recommendations and adopting the magistrate's reasoning. The court entered final judgment, and NLFC filed its notice of appeal to the United States Court of Appeals for the Seventh Circuit.[1] The court of appeals affirmed the district court's decision, concluding that Devcom's actions did not constitute "copying" under the Copyright Act. The court also affirmed the district court's ruling on NLFC's claim that Devcom improperly tried to market NLFC's software without permission.

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[1] Upon granting summary judgment against NLFC on its copyright claim, the court dismissed NLFC's state law claims, exercising its discretion to dismiss these claims on the grounds that the amount in controversy was insufficient to vest the court with diversity jurisdiction and the court no longer had supplemental jurisdiction over those claims.

ARGUMENT

In its published opinion, the court of appeals has affirmed a district court's decision that the unauthorized printing of a hard copy print-out of the source code of a computer software program does not constitute copyright infringement if the printing is done by telephone. This is a novel interpretation of the law of copyright infringement in the context of computer software. Because of the broad implications of the court's decision in the realm of software copyright protection, this Court should act to correct the court of appeals' misapplication of the Copyright Act.

A. The standard for summary judgment.

This Court reviews de novo an order that grants a summary judgment. *See, e.g., Eastman Kodak Co. v. Image Technical Servs., Inc.*, 504 U.S. 451 (1992); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 249-52 (1986). Summary judgment is proper only if the moving party demonstrates that there exists no genuine issue of any material fact and that the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c); *Anderson*, 477 U.S. at 247. The moving party bears the initial burden to demonstrate that no genuine issue of material fact exists. *Celotex Corp. v. Catrett*, 477 U.S. 317, 324 (1986). All facts must be construed in the light most favorable to the party opposing the motion, and the court must draw inferences in favor of that party. *Matsushita Elec. Indus. Co. v. Zenith Radio Corp.*, 475 U.S. 574, 587-88 (1956). Any doubt as to the existence of a genuine issue for trial must be resolved against the party requesting summary judgment. *Anderson*, 477 U.S. at 255.

B. The court of appeals improperly concluded that Devcom's actions were not "copying."

Computer programs take two forms: both human-readable "source code," and machine-readable "object code." *Midway Mfg. Co. v. Strohon*, 564 F. Supp. 741, 750 (N.D. Ill. 1983). The mere copying of computer software from disk into memory has been held as an infringement, let alone making a printed copy. *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 518 (9th Cir. 1993), *cert. dismissed*, 114 S. Ct. 671 (1994); *ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F. Supp. 1310, 1332 (N.D. Ill. 1990).

In the district court, Devcom did not dispute that a company called Lab Force had developed the software at issue and that NLFC had obtained from Lab Force the copyright in that software. NLFC, as the owner of the copyright, thus had the exclusive right to make copies of the software. *See* 17 U.S.C.A. § 106 (West 1977 & Supp. 1995). Thus, Devcom could prevail on summary judgment either by proving that it had not copied NLFC's software or by showing that NLFC would not be able to prove that Devcom had copied the software.

NLFC's summary judgment proof created an issue of fact regarding whether Devcom had copied the NLFC software by printing the source code at Devcom's Chicago office. Devcom submitted affidavits of Devcom personnel suggesting that it had not copied NLFC software, "except to create a viewable print-out necessarily required for modification purposes." In reply, NLFC offered deposition testimony of Jon Kristofferson, the director of Devcom's software development, which stated as follows:

Q: [Y]ou still have Exhibit No. 1 there in front of you, and am I wrong, isn't that a Lab Force program?
A: It says Lab Force.
Q: It also says Devcom. Does that mean it was printed out at Devcom's offices?
A: Yeah, I would say it was.
Q: Do you know where that particular program . . . came from?
A: No.
Q: Was it printed at Devcom's office?
A: Yes.

The district court had concluded that Devcom's evidence established that Devcom had not infringed a copyright in the NLFC software, and that the above evidence did not create an issue of fact regarding this "copying" issue.

The court of appeals agreed. The court reasoned that when Devcom printed the source code at its Chicago offices, it had not done so by downloading the NLFC software program into Devcom's own computer located in its Chicago offices. *NLFC*, 45 F.3d at 235. The court inferred that instead Devcom had used telephone lines between its Chicago office computer and Cabrini's New York computer, making a copy directly from Cabrini's own computer. The court concluded that "the only plausible inference favoring NLFC that can be drawn from the evidence produced by NLFC is that Devcom accessed the memory or hard drive of one of the laboratory computers directly through a dedicated phone line, and that the source codes were printed directly from that source. There is no support here for the inference that this information originated from one of Devcom's computers."

Based on the inference it drew from the evidence, the court of appeals should have concluded that Devcom "copied" the computer program within the meaning of the Copyright Act. In other words, Devcom's printing of the source code, without permission from NLFC, constituted infringement of copyright regardless of the exact means by which Devcom made the copy. In defining what actions constitute infringement, the Copyright Act does not make a distinction between unauthorized copying off one's own computer and unauthorized copying off of someone else's computer by means of telephone or some other electronic access. NLFC's summary judgment proof thus created an issue of fact as to whether Devcom had infringed NLFC's copyright.

The court of appeals endorsed the district court's conclusion that the Kristofferson testimony did not create an issue of fact because it failed to contradict Devcom's assertion that the only "copy" Devcom had made was the "print-out" for purposes of modifying the NLFC software. *NLFC*, 45 F.3d at 235 n.5. The court's reasoning misses the point. Whether or not the print-out was made for the purpose of modification, it was still unauthorized copying of NLFC's software, which was an infringement of NLFC's copyright. Thus, the court of appeals' decision was simply wrong under the Copyright Act.

C. NLFC's license agreements with Cabrini and FSL did not allow Devcom to copy the NLFC software.

The court of appeals also concluded that NLFC had failed to show that Devcom's actions were inconsistent with the terms of the Cabrini and FSL license agreements. The question was whether Devcom could claim that those licenses authorized Devcom's copying. Devcom admits it

modified and enhanced the NLFC software in Cabrini's and FSL's possession. This conduct is expressly included in the definition of preparation of a derivative work, and, therefore, constitutes a violation of the Copyright Act unless NLFC authorized it. *See* 17 U.S.C.A. §§ 101, 106 (West 1977 & Supp. 1994).

Both Cabrini's license and FSL's license prohibited Cabrini and FSL from using the NLFC software other than internally for the licensee's own business operations. The licenses also prohibited Cabrini and FSL from distributing copies of the NLFC software or allowing third parties to make copies.[2] Cabrini and FSL thus both agreed to keep

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[2] Relevant terms of the Cabrini license include the following:

> 6.2.2. PURCHASER agrees not to copy the COMPUTER SOFTWARE covered by this Agreement in any manner except as reasonably necessary for license to use and in the normal backup procedures, without the express written consent of [NLFC].
>
> 6.2.7. [NLFC] shall give the PURCHASER copies of the source code corresponding to all LICENSED SOFTWARE including, but not limited to, each application, compiler, file structure, data base handler and file layout corresponding thereto. PURCHASER may use the foregoing for purposes of modification, maintenance, enhancement and integration by PURCHASER. . . . PURCHASER shall not disclose or transfer any COMPUTER SOFTWARE source code to third parties.

the NLFC software confidential and not disclose it to third parties. Cabrini agreed not to copy the software except as specified in its license, and FSL's contractual right to secure maintenance from a third party did not grant it or anyone else legal authority to make copies of the NLFC software or to maintain a copy on that third party's computer. Thus, neither Cabrini nor FSL had authority to give Devcom permission to do what it did.

D. The court of appeals improperly refused to consider NLFC's rule 12(n) statement.

The court of appeals erred in affirming the district court's ruling that NLFC had not filed a proper statement of contested facts in compliance with Local Rule 12(n) of the Northern District of Illinois Local Rules. That rule requires that any party that opposes a motion for summary judgment must file a statement listing those material facts which are in dispute. N.D. Ill. Local R. 12(n). The district court concluded that NLFC's rule 12(n) statement failed to controvert Devcom's rule 12(m) statement listing of undisputed facts. The court asserted that NLFC's rule 12 statement offered conclusory allegations and misleading characterizations of the record.

Relevant terms of the FSL license include the following:

> 7. FSL agrees that [the Software] provided consists of valuable trade secrets of [NLFC], and FSL agrees to keep all [NLFC] Software and documentation confidential and not make any disclosures to third parties, with the exception of disclosures made pursuant to FSL's rights under this letter agreement.

NLFC's rule 12(n) statement did not contain mere conclusory allegations, and it made clear reference to deposition testimony which created an issue of fact for trial. NLFC's rule 12(n) statement said:

> Devcom copied and/or reproduced NLFC's software, in violation of NLFC's rights under Title 17 of the United States Code. Devcom's employee, Jon Kristofferson, Devcom's Director of Software Development, during his deposition of April 22, 1993 admitted that Devcom copied NLFC's software: *see* Exhibit A, Kristofferson Deposition, p. 121, lines 2-13, and Deposition Exhibit 1. Also, see Exhibit B hereto.

Incredibly, the district court and court of appeals held NLFC's response insufficient, and they deemed Devcom's statement of material facts as being admitted. The court of appeals' decision to uphold the district court's ruling disregarding NLFC's rule 12(n) statement was erroneous, because NLFC's statement complied with rule 12(n).

E. The district court erred in deeming as admitted statements in Devcom's rule 12(m) statement.

If NLFC's rule 12(n) statement could be said not to be in technical compliance with the local rule requirement, the court of appeals erred in affirming the district court's decision to deem admitted the facts set forth in Devcom's rule 12(m) statement. Deeming admitted the allegations in a rule 12(m) statement conflicts with the requirements of rule 56 of the Federal Rules of Civil Procedure. Thus, to the extent that Local Rule 12 allows such a practice, the district court has gone beyond its rule-making authority.

The district courts have authority to promulgate local rules governing practice in their courts. *See* 28 U.S.C. § 2071 (West 1995); Fed. R. Civ. P. 83. However, that rule-making authority is limited. The courts' local rules must be consistent with the Federal Rules of Civil Procedure and with all Acts of Congress. *Id.* If a local rule is inconsistent with the rules of practice which this Court has prescribed, this Court has inherent supervisory power to invalidate those rules. *Frazier v. Heebe*, 482 U.S. 641, 645 (1987).

Rule 56 says that summary judgment is proper "if the pleadings, depositions, answers to interrogatories, and admissions on file, together with the affidavits, if any" show that there is no genuine issue of material fact and that the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c). The "admissions" to which rule 56 refers are admissions made in response to rule 36 of the Federal Rules. Local rule 12(m) provides for admissions other than those made in accordance with the procedures in rule 36 for requesting admissions of fact and responding to such requests.

The district court's application of its local rule 12(m) allows the district courts to grant summary judgment by default. It allows the district court to grant summary judgment based on the bare allegations contained in a rule 12(m) statement, regardless of whether the record contains pleadings, depositions, interrogatory answers, admissions, or affidavits which show that no genuine issue of material fact exists. Thus, the rule is inconsistent with rule 56.

A local rule that allows a court to grant summary judgment as a result of the opposing party's failure to respond to a motion for summary judgment is inconsistent

with rule 56 and therefore improper. *See, e.g., Henry v. Gill Indus., Inc.*, 983 F.2d 943, 949 (9th Cir. 1993) (local rule allowing summary judgment when no opposition filed is inconsistent with rule 56 and violates rule 83); *Hibernia Nat'l Bank v. Administracion Central Sociedad Anonima*, 776 F.2d 1277, 1279 (5th Cir. 1985) (a local rule cannot permit court to grant a summary judgment merely because there is no opposition). The court of appeals' action in allowing the district court to deem a fact admitted because it is listed in a rule 12(m) statement is inconsistent with rule 56 and thus inconsistent with rule 83 and section 2071 of the Code of Judicial Procedure. The court of appeals, therefore, erred to the extent it affirmed the district court's ruling based on the allegations contained in Devcom's rule 12(m) statement.

CONCLUSION

Because of the broad implications that the court of appeals' reported decision has for the software industry, this Court should grant this petition and correct the court of appeals' decision.

Respectfully submitted,

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Appendix to
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IN THE UNITED STATES COURT OF APPEALS
FOR THE SEVENTH CIRCUIT

No. 94-1150

NLFC, Incorporated,

Plaintiff-Appellant,

v.

Devcom Mid-America, Incorporated,

Defendant-Appellee.

Appeal from the United States District Court
for the Northern District of Illinois, Eastern Division.
No. 93 609 - George W. Lindberg, Judge.

Argued September 19, 1994—Decided January 19, 1995

Before BAUER and MANION, Circuit Judges, and GRANT, District Judge.*

MANION, Circuit Judge. NLFC, Inc. ("NLFC") appeals a grant of summary judgment in favor of Devcom Mid-America, Inc. ("Devcom"). NLFC filed suit in federal district court against Devcom alleging federal copyright

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* Hon. Robert A. Grant, District Judge for the United States District Court, Northern District of Indiana, is sitting by designation.

infringement (Count I). In addition, NLFC asserted three claims under Illinois law for misappropriation of trade secrets, tortious interference with contract, and unfair competition (Counts II-IV). The district court found that no genuine issue of material fact existed regarding the copyright infringement claim and granted summary judgment in favor of Devcom. The court then dismissed the remaining state law claims. We affirm.

I. Background

NLFC owns the copyright to a computer program (the "NLFC software") designed for use in medical pathology laboratories.[1] Two medical facilities, Cabrini Medical Center ("Cabrini") and Franciscan Shared Laboratory ("FSL") (collectively "the labs"), contracted for the purchase and use of this software as part of computerized patient information systems installed in their labs. The software, however, contained many bugs (among other assorted problems) and the labs experienced great difficulty with NLFC in getting the program up and running. The difficulty was apparently so great that FSL sued NLFC and obtained, as part of a settlement agreement, the ability to "obtain maintenance and support

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[1]The software at issue in this case was originally developed by a Texas corporation known as Lab Force, Inc. The rights to this software were acquired by NLFC after Lab Force declared bankruptcy. Both corporations contributed to the development of the software and entered into agreements with purchasers at various times concerning the software. For the purposes of this opinion both Lab Force and NLFC will be collectively referred to as NLFC.

services from whatever source FSL deems necessary."[2] Toward that end, FSL contracted with Devcom, an outside consulting firm located in Oak-brook, Illinois, to "remove[] the bugs in the NLFC Software and to enable the NLFC Software to be run on the Clients' computers."[3] Devcom's work for FSL was so successful that FSL recommended its services to Cabrini, who was having similar problems getting its system running. Devcom performed the work for both labs using dedicated telephone lines, dumb terminals, and on-site efforts. In order to assist them in making the necessary changes, a viewable copy of the source codes to the NLFC software (more on this later) was printed at Devcom's offices. Alter completing the work, Devcom sent a letter marketing its newly-acquired expertise to other labs using the NLFC software.

After discovering that Devcom had been retained to fix its software, NLFC filed this lawsuit alleging that Devcom copied the software in violation of its copyright. NLFC also alleged that Devcom illegally marketed the NLFC software through the letter that it sent to other NLFC software users. After reviewing the record, the district court granted summary judgment in favor of Devcom and dismissed the three state law claims.

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[2]This settlement agreement was entered into on November 9, 1989 and was amended on July 6, 1990. The references to outside maintenance and support services, however, are substantially the same.

[3]Affidavit of Ronald G. Diener, President of Devcom Mid-America, Inc.

II. Analysis

NLFC first challenges the district court's grant of summary judgment on its copyright infringement claim. We review a grant of summary judgment *de novo*. *Deutsch v. Burlington N. R. Co.*, 983 F.2d 741, 743 (7th Cir.), *cert. denied*, 113 S. Ct. 1845 (1993). Summary judgment is proper only if the moving party demonstrates that there is no genuine issue of material fact and that it is entitled to judgment as a matter of law. Fed. R. Civ. P. 56(c); *Bourne Co. v. Hunter Country Club, Inc.*, 990 F.2d 934, 938 (7th Cir.), *cert. denied*, 114 S.Ct. 308 (1993). When determining if a genuine issue of material fact exists, all facts must be construed in the light most favorable to the party opposing the motion and the court must draw all inferences in favor of that party. *Smart v. State Farm Ins. Co.*, 868 F.2d 929, 931 (7th Cir. 1989). The moving party bears the initial burden of demonstrating that no genuine issue of material fact exists. *Celotex C. v. Catrett*, 477 U.S. 317, 323 (1986). After the moving party makes this initial showing, the burden shifts to the party opposing summary judgment to present specific facts demonstrating a genuine issue for trial. *Id.* at 324; *Becker v. Tenenbaum-Hill Assoc., Inc.*, 914 F.2d 107, 110 (7th Cir. 1990).[4]

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[4]NLFC also alleges in this case that the district court erred in concluding that its Local Rule 12(n) statement contained no material evidence opposing Devcom's summary judgment motion and therefore erred in admitting Devcom's Local Rule 12(m) statement as uncontroverted evidence. Local Rule 12(n) requires that the party opposing a motion for summary judgment supply additional material facts to the court and further states that "all material facts set forth in the statement required

Under section 106 of the Copyright Act, the owner of a copyright is given the exclusive right to (among other things) reproduce the work in copies, prepare derivative works based on the copyrighted work, and distribute copies of the work to the public. 17 U.S.C. § 106; *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 258 (5th Cir. 1988). Section 501(a) provides that "[a]nyone who violates any of the exclusive rights of the copyright owner as provided by sections 106 through 118 . . . is an infringer of the copyright . . ." 17 U.S.C. § 501(a).

Among the works protected under § 106 of the Act are computer programs. *Atari Games Corp. v. Nintendo of America Inc.*, 975 F.2d 832, 838 (Fed. Cir. 1992) (as literary works, copyright protection extends to computer programs). A "computer program" is defined in § 101 of the Act as "a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result." These instructions take at least two forms. The first, the source code, is a set of "human readable" instructions to the computer in computer languages such as BASIC and FORTRAN. *Johnson Controls*

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of the moving party will be deemed to be admitted unless controverted by the statement of the opposing party." *See Capitol Converting Equipment, Inc. v. LEP Transport, Inc.*, 965 F.2d 391, 394 (7th Cir. 1992). Instead of identifying specific disputed facts, however, NLFC merely asserted a series of allegations, legal conclusions, and questionable characterizations of the record. This court has consistently upheld a strict application of Local Rule 12, *id.*, and we do so here as well. The district court did not err in admitting Devcom's Rule 12(m) statement as uncontroverted evidence in this case.

Inc. v. Phoenix Control Systems, Inc., 886 F.2d 1173, 1175 and n.2 (9th Cir. 1989). A computer program also uses an object code. This is the same set of instructions, but in binary code: the presence or absence of an electrical charge, which may be represented by a series of 1's and 0's, at each cycle of a computer's operation that ultimately direct the computer's activity. *Id.; Midway Mfg. Co. v. Strohon*, 564 F.Supp. 741, 750 (N.D. Ill. 1983). Computers do not act directly on source code instructions, but rather transform them into object code within the machine. *Midway Mfg. Co.*, 564 F.Supp. at 750. Both the source and object codes to computer software are also individually subject to copyright protection. *Johnson Controls*, 886 F.2d at 1175; *Midway Mfg. Co.*, 564 F. Supp. at 750-51.

In this case, NLFC contends that the district court erred in holding, as a matter of law, that its exclusive rights to the NLFC software under § 106 were not violated. Specifically, NLFC claims that the evidence presented below shows that Devcom violated its rights in two ways: (1) that Devcom, in the process of its activities on behalf of Cabrini and FSL, copied the NLFC software onto its in-house computer system, and (2) that Devcom illegally marketed the NLFC software as modified. We address each allegation in order.

First, NLFC alleges that the district court erred in finding that Devcom had not copied the NLFC software onto its in-house computers. Neither party disputes that loading software into a computer constitutes the creation of a copy under the Copyright Act. *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 519 (9th Cir. 1993), *cert. dismissed*, 114 S.Ct. 671 (1994); *Vault Corp.*, 847 F.2d at 260 ("the act of loading a program from a medium of storage into a computer's memory creates a copy of the

program"); 2 *Nimmer on Copyright*, § 8.08[A] (1994) (computer input constitutes the making of a "copy"). Rather, the dispute in this case centers on whether NLFC presented evidence from which a reasonable juror could conclude that such copying took place.[5] Devcom of course was under no duty to negate NLFC's claims in this case. *Celotex Corp.*, 477 U.S. at 323 (while party seeking summary judgment always bears the initial responsibility of informing the district court of the basis for its motion and identifying those portions of the record, if any, which it

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[5]Even if such a copying could be demonstrated in this case, we are convinced that Devcom's activities were permissible under the agreements entered into between NLFC and the labs. *See MAI Systems Corp.*, 991 F.2d at 517 (to prevail on a claim of copyright infringement, a plaintiff must prove ownership of a copyright and a copying of protectable expression "beyond the scope of a license"). To illustrate, the agreement entered into between NLFC and Cabrini (the "Cabrini Agreement") allowed Cabrini to copy the NLFC software "as reasonably necessary for licensed use" and also allowed Cabrini to modify, update, enhance, and maintain the software using the source codes provided by NLFC. *See* Cabrini Agreement ¶¶6.2.2, 6.2.4, 6.2.7. The Agreement also expressly contemplated that Cabrini's agents and employees (under the control of Cabrini) may perform this work on behalf of the lab. *See* Cabrini Agreement ¶6.2.5. The settlement agreement entered into between NLFC and FSL similarly authorized FSL to obtain "maintenance and support services from whatever source FSL deems necessary." While our disposition of this case ultimately makes this analysis unnecessary, we mention it here for the sake of completeness.

believes demonstrates the absence of a genuine issue of material fact, there is nothing in Rule 56 that requires a moving party to negate an essential element of an opponent's claim for which it bears the ultimate burden at trial). Instead, NLFC bore the burden, as the party opposing the motion, of coming forward with affirmative evidence proving its allegation (in this case, that Devcom did in fact illegally copy the NLFC software onto its computers). And, of course, that inference must be "reasonable in light of the competing inferences." *Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Co.*, 475 U.S. 574, 588 (1986). "I[fl the factual context renders the claims asserted by the party opposing summary judgment implausible, the party must 'come forward with more persuasive evidence to support their claim than would otherwise be necessary.'" *McDonnell v. Cournia*, 990 F.2d 963, 967(7th Cir. 1993) (quoting *Matsushita*, 475 U.S. at 587).

NLFC claims that it made the requisite showing and points us to the following portion from the deposition of Jon Kristofferson, Devcom's Director of Software Development:

Q: [Y]ou still have Exhibit No. 1 there in front of you, and am I wrong, isn't that a Lab Force program?
A: It says Lab Force.
Q: It also says Devcom. Does that mean it was printed out at Devcom's offices?
A: Yeah, I would say it was.
Q: Do you know where that particular program... came from?
A: No.
Q: Was it printed at a Devcom office?
A: Yes.

From this testimony NLFC asked the district court (and now this court) to infer that Devcom loaded the software onto its in-house computers prior to printing. The factual context in this case, however, will not support this inference. For example, Kristofferson testified that the source codes to the NLFC software were not copied onto Devcom's computers. When asked why this was so Kristofferson explained that "It's illegal . . . [t]o have a copy of someone's source or object code on their machine without permission." Furthermore, several persons including Jon Kristofferson, Ronald G. Deiner, Devcom's president, and Alec J. Stapleton, Laboratory Information Systems Manager for FSL, testified that Devcom conducted its business with Cabrini and FSL using dedicated telephone lines, dumb terminals, and on-site visits. As an example, Kristofferson discussed how One particular Devcom employee went about his work:

Q: Does he have telecommunications on that PC, as far as you know?
A: Yes.
Q: So he has a modem on that machine specifically?
A: No, I believe he has a connection up through leased lines.
Q: What are the leased lines?
A: One goes to FSL and one goes to Cabrini.
Q: So he has telecommunications through the leased lines with FSL and Cabrini?
A: Yes.
Q: And he accesses them through his PC; is that your understanding?
A: Yes, using a dumb terminal emulation program.

This testimony bolsters Kristofferson's assertions and indicates that Devcom did not, during its course of business with either lab, download the software onto its computers in order to work on it. Instead, Devcom directly accessed the laboratory computers, via leased or dedicated phone lines and the use of dumb terminals. From the whole record, therefore, the only plausible inference favoring NLFC that can be drawn from the evidence produced by NLFC is that Devcom accessed the memory or hard drive of one of the laboratory computers directly through a dedicated phone line, and that the source codes were printed directly from that source. There is no support here for the inference that this information originated from one of Devcom's computers. This of course does not conclusively prove that this is what happened in this case. But it does mean that, to prove otherwise, NLFC was required to come forward with more persuasive evidence to bolster its claim. It did not do so in this case and therefore the district court was correct in granting summary judgment in favor of Devcom on this allegation.

NLFC next contends that the district court erred concluding that the evidence did not support NLFC's claim that Devcom marketed an enhanced version of the NLFC software to other current NLFC software users. The only evidence introduced by NLFC to prove its claim is a letter from Jon Kristofferson and Ronald Diener to Walter Girod of Our Lady of the Lake Regional, Baton Rouge, Louisiana, dated November 19, 1992. But nothing in this letter can be reasonably interpreted as marketing anything but Devcom's expertise in working with this software. Instead, the letter contains a "list of highlights of our consulting work with the [NLFC] programs," continues by describing other tasks performed for customers, and then

suggests ways that future customers could benefit from Devcom's experience.[6] It simply would not be reasonable to read this letter as an attempt to market the software itself, modified or otherwise. The district court did not err in granting summary judgment in favor of Devcom on this claim as well.

Finally, NLFC asserts that the district court erred in dismissing its three state law claims for lack of supplemental jurisdiction. Under 28 U.S.C. § 1367(a), district courts are granted supplemental jurisdiction over pendant state law claims. If all federal law claims drop out before trial, however, district courts may dismiss such claims. 28 U.S.C. § 1367(c). We will reverse a district court's dismissal of pendant state claims only upon a showing that the district court abused its discretion. *Vukadinovich v. Board of Sch. Trustees of Mich. City Area Schools*, 978 F.2d 403, 415 (7th Cir. 1992), *cert. denied*, 114 S. Ct. 133 (1993). The district court dismissed the three state claims in this case after properly granting summary judgment on NLFC's federal copyright claim. We can find no reason, and NLFC has not offered any, why this was an abuse of the court's discretion. The choice to dismiss on these grounds was therefore not error.

The district court also refused to exercise federal diversity jurisdiction over the state law claims in this action, finding that NLFC could not demonstrate that "the matter in controversy exceeds the sum or value of $50,000." 28 U.S.C. § 1332(a). The party invoking federal jurisdiction bears the burden of establishing the elements

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[6]*See* appendix for a recitation of the pertinent portions of this letter.

of jurisdiction. *Lujan v. Defenders of Wildlife*, 112 S. Ct. 2130, 2136 (1992); *see also FW/PBS, Inc. v. Dallas*, 493 U.S. 215, 231 (1990). Generally the amount in controversy claimed by a plaintiff in good faith will be determinative on the issue of jurisdictiOnal amount, unless it appears to a legal certainty that the claim is for less than that required by the rule. *St. Paul Mercury Indem. Co. v. Red Cab Co.*, 303 U.S. 283, 289 (1938); *Gibbs v. Buck*, 307 U.S. 66, 72 (1939) ("[Al general allegation [that the jurisdictional amount exists] when not traversed is sufficient"). But if the court's jurisdiction is challenged as a factual matter by either the court or the opposing party, the party involving the jurisdiction bears the burden of supporting its jurisdictional allegations by "competent proof." *McNutt v. General Motors Acceptance Corp. of Indiana*, 298 U.S. 178, 189 (1936); *Grafon Corp. v. Hausermann*, 602 F.2d 781, 783 (7th Cir. 1979). This has been interpreted to mean a preponderance of the evidence or "proof to a reasonable probability that jurisdiction exists." *Gould v. Artisoft, Inc.*, 1 F.3d 544, 547 (7th Cir. 1993) (in the context of federal removal jurisdiction); *see also Shaw v. Dow Brands, Inc.*, 994 F.2d 364, 366 n.2 (7th Cir. 1993).

In this case NLFC's complaint alleged that it "suffered damages in excess of the minimum jurisdictional limits of this court." But Devcom challenged this allegation and NLFC was therefore required to make some effort to prove that the damages sustained from its state law claims met the $50,000 threshold. NLFC did not do so, choosing instead to defend its previous assertion as sufficient. NLFC failed to add any information on the amount of damages that may have been sustained in its

state claims.[7] The district court therefore did not err in dismissing NLFC's state law claims on this basis.

III. Conclusion

For the foregoing reasons, the judgment of the district court is affirmed.

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[7]Both parties seem to have labored under the mistaken assumption that Devcom was required to prove that NLFC did not meet the jurisdictional amount. NLFC, for example, stated in its brief that "Devcom did not show that NLFC could not prove the value to Devcom of the trade secret component of the computer software." As discussed above, however, the burden of proving facts supporting federal jurisdiction rests with the party asserting that jurisdiction.

Appendix

The letter from Jon Kristofferson and Ronald Diener to Walter Girod of Our Lady of the Lake Rejoinal, Baton Rouge, LA, reads in pertinent part:

We have been instrumental in assisting Lab Force customers in support, implementation, and enhancement of the Lab Force system. We have experience on Versions 9, 10, and 11 of the Lab Force code. Below is a list of highlights of our consulting work with the Lab Force programs.

1.) Improved the speed performance of the Version 11 CUM reports by a factor of 3x to 5x.

2.) Rewritten the outpatient reporting module including the 100% automation of remote reporting.

3.) Fixed various problems in the IIR programs, and added some new instruments like the Coulter STK-S, and the ABL520 blood gas instrument.

4.) Rewrote and enhanced the hospital interface programs to American Express and Sunborg (Bell-Atlantic). This included adding semaphore logic to eliminate the needless CPU resources wasted on looping.

5.) Wrote the XC7 bi-directional interface for Beckman Instruments direct to the Prime Computer without an IIR PC.

6.) Have done the preliminary investigation into bar-coding several of the Labforce [sic] applications.

Smaller consulting tasks performed have been bug fixing, system tune-ups, mapping out the existing application, etc. Currently we are in the processes of rewriting a major portion of the old microbiology system as a joint project between two of our clients. In this manner, they share the costs associated with the development, as well as control the direction of the development. We are also writing new bi-directional interfaces for two new microbiology instruments.

Devcom has done research in several technical areas for our clients to investigate technologies and directions. Our latest endeavor was to determine if client-server architecture would be appropriate for laboratory software. We are members of HL7 and have incorporated HL7 into our client server designs. The results of the investigation are available in the form of a paper authored by a member of our staff. For a copy of this paper, feel free to give me a call.

All of our customers have expressed an interest in forming a Lab Users Group. Would you be interested in attending? We would be delighted to entertain your questions on what Devcom can do for your [sic] and your organization. If you are interested in the relationships we have developed with other Lab Force customers, references are available.

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS

H. Stuart Cunningham
CLERK

Office of the Clerk

Case Number: 1:93-cv-00609
Title: NLFC, Inc. v. Devcom Mid-Amer, Inc
Assigned Judge: Honorable George W. Lindberg

MINUTE ORDER of 1/27/94 by Hon. George W. Lindberg: The Clerk is ordered to enter judgment as follows on a separate document pursuant to FRCP 59: "Judgment is entered for defendant Devcom Mid-America, Inc. and against plaintiff NLFC, Inc. on count I of plaintiff's complaint. The court declines to exercise jurisdiction over plaintiff's pendent state law claims and dismisses counts II, III and IV without prejudice to their being refiled in state court." Plaintiff's notice of appeal will be treated as filed on the date of and after the entry of judgment pursuant to Federal Rule of Appellate Procedure 4(a)(2). terminating case Mailed notice.

This order was entered on the docket by the Clerk February 3, 1994

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS

Name of Assigned Judge
or Magistrate Judge: George W. Lindberg

Case Number: 93 C 609
Date: January 4, 1994
Case Title: NLFC v. DEVCOM, Inc.

DOCKET ENTRY

Defendant Devcom Mid-America, Inc.'s motion for summary judgment as to Count I is granted. Counts II through IV are dismissed.

ORDER

The court has reviewed de novo the report and recommendation of the U.S. Magistrate Judge dated November 16, 1993 recommending that defendant Devcom Mid-America, Inc.'s (Devcom) motion for summary judgment as to Count I be granted and that Counts II-IV, the pendant state claims, be dismissed. The court accepts the recommendations and adopts the reasoning of the Magistrate Judge notwithstanding the objections thereto by plaintiff NLFC, Inc.

This court agrees with defendant Devcom and the Magistrate Judge that as a matter of law defendant Devcom's utilization of the plaintiff's copyrighted software was within the license granted by Lab Force to Cabrini and FSL. Plaintiff failed to controvert in its 12(n) statement the assertions of Devcom in its 12(m) statement which assertions are material and uncontroverted. There being no material issue of fact, the Magistrate Judge correctly found that defendant Devcom's motion for summary judgment as to Count I of plaintiff's amended complaint should be granted.

The court also accepts the Magistrate Judge's recommendation, for the reasons stated in his report, rejecting Devcom's alternative theory of non-joinder of indispensable parties. This court finds that Cabrini and FSL are not necessary parties even if summary judgment was the proper vehicle to raise this issue. Devcom's motion for summary judgment on the basis of non-joinder of indispensable parties will be denied.

The court accepts the recommendation of the Magistrate Judge that plaintiff's claim for attorney fees under 17 USC 505 would be barred by the registration of the copyright being subsequent to the alleged infringement pursuant to the analysis of the Magistrate Judge.

Finally, the court accepts the recommendation of the Magistrate Judge, and adopts his reasoning therefore, concerning plaintiff's inability to establish the amount in controversy sufficient to vest the court with diversity jurisdiction.

The court declines to take jurisdiction of the pendant state claims, Counts II-IV. Those claims will be dismissed.

ORDERED: Defendant Devcom Mid-America, Inc.'s motion for summary judgment as to Count I is granted. Counts II through IV are dismissed.

IN THE UNITED STATES DISTRICT COURT
FOR NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

NLFC, Inc.,	)	
	)	
Plaintiff,	)	
	)	
v.	)	93 C 0609
	)	
Devcom Mid-America, Inc.,	)	
	)	
Defendant.	)	

TO: Honorable George W. Lindberg, Judge, United States District Court

REPORT AND RECOMMENDATION
of Magistrate Judge Ronald A. Guzmán

Plaintiff NLFC, Inc. ("NLFC") is a corporation which designs and licenses use of software. In December 1987 and November 1989 respectively, NLFC entered into nonexclusive licensing agreements with two medical facilities, Cabrini Medical Center ("Cabrini") and Franciscan Shared Laboratory ("FSL"), for use of its software ("NLFC Software"). As permitted under these agreements, both Cabrini and FSL contracted with defendant Devcom America, Inc. ("Devcom") to modify and enhance the NLFC Software in their possession for the purposes of removing bugs in the software and enabling the software to run on their computers.

NLFC brings this copyright action against Devcom, charging that Devcom obtained copies of NLFC 's software from licensees, modified and enhanced the software, and then unlawfully marketed the modifications and enhancements. NLFC had been developing its

software for several years, although it did not register its copyright in the software until January 12, 1993.

On January 29, 1993, NLFC filed its original complaint. On February 23, 1993, Judge George Lindberg dismissed the original complaint on the basis that the complaint contained allegations solely based on information and belief. NLFC filed its First Amended Complaint on March 3, 1993. NLFC's four-count complaint alleges that Devcom infringed its copyrights in NLFC Software (Count I), misappropriated its trade secrets (Count II), tortiously interfered with its contractual relationships (Count III), and Devcom engaged in unfair competition (Count IV).

On March 15, 1993, Devcom moved to dismiss the complaint under Fed. R. Civ. P. 12(b)(1), 12(b)(6), and 12(b)(7). On April 13, 1993, Judge Lindberg referred this case to these chambers for a ruling on Devcom's motion to dismiss. On April 14, 1993, NLFC filed its response, and one week later Devcom filed its reply. On April 27, 1993, NLFC moved to strike Devcom's reply because Devcom had attached various exhibits to the reply and had requested the court to consider the reply as a motion under Fed. R. Civ. P. 56 for summary judgment. On April 29, 1993, this court granted NLFC's motion to strike Devcom's reply, and Devcom withdrew its motion to dismiss.

On May 3, Devcom filed its motion for summary judgment and its motion to dismiss the complaint under Fed. R. Civ. P. 11 and 12(b). On May 17, NLFC filed its response to these motions, and on May 28, Devcom filed its reply. The case is now fully briefed and ready for disposition. For the reasons presented below, Devcom's motion for summary judgment should be granted. In light of this recommendation, this court will not address Devcom's motion to dismiss here.

FACTUAL BACKGROUND

The following statement of facts is based upon the parties Local Rule 12(m) and 12(n) Statements and supporting materials.[8]

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[8] NLFC's Statement of Contested Facts, which follows its Local Rule 12(n) Statement, does not comply with the requirement under Rule 12(n) that the statement consist of "additional. . . material facts." Rather than identifying specific disputed material facts, NLFC's statement raises conclusory allegations, legal conclusions, and misleading characterizations of the record. For instance, NLFC asserts:

> 1. Devcom copied and/or reproduced NLFC's software, in violation of NLFC's rights under Title 17 of the United States Code. Devcom's employee, Jon Kristofferson, Devcom's Director of Software Development, during his deposition of April 22, 1993 admitted that Devcom copied NLFC's software. . .

The first sentence in this paragraph is inappropriate because it states a legal conclusion. The second sentence is not borne out in the record at all: Mr. Kristofferson never "admitted that Devcom copied NLFC's software"; he merely testified that a Lab Force program was printed out at a Devcom office. NLFC's four remaining assertions consist of inappropriate legal conclusions concerning misappropriation of trade secrets, tortious interference with contractual relationships, unfair competition, and rightful acquisition of trial. Because these assertions fail to present any "material facts," they will not be considered

NLFC is a Delaware corporation having its principal place of business in Dallas, Texas. NLFC is a successor in interest to the assets of a Texas corporation, known as Lab Force, Inc. ("Lab Force"), whose assets were all acquired by NLFC.[9] Although Lab Force began developing the NLFC Software in 1978, not until the "past few years" did NLFC work on the software. (Am. Compl. ¶ 5.). Devcom is an Illinois corporation with its principal place of business in Oak Brook, Illinois.

On December 29, 1987, Lab Force entered into an agreement ("Cabrini Agreement") with Cabrini to, among other things, license Cabrini to use the NLFC Software. (Agreement for Sale of Computer Hardware and Licenses of Computer Software, Ex. B to Devcom's Rule 12(m) Statement.) Sections 6.2.2, 6.2.4, and 6.2.7 of the Cabrini Agreement specifically permitted Cabrini to copy, modify, maintain, integrate, and enhance the NLFC Software. (Defendant's Rule 12(m) Statement, ¶ 17; Plaintiffs Rule 12(n) Statement, ¶ 17.) On November 9, 1989, Lab entered into a settlement agreement with the FSL, amended on July 6, 1990 ("FSL Agreement"), to, among other things, license FSL to use the NLFC Software. Section 6 of the FSL Agreement specifically permitted FSL to use the services of a third party to maintain and support the NLFC Software. (Defendant's Rule 12(m) Statement, ¶18; Plaintiffs Rule 12(n) Statement, ¶ 18.)

Devcom has provided an affidavit from its president, Ronald Diener, who asserts that Devcom was initially approached by FSL to remove "time-bombs" from

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by this court.

[9]The complaint does not provide any date for this acquisition.

the NLFC Software.[10] These "time-bombs," Diener explains, are internal programs created by NLFC that would at a predetermined time in the future make the NLFC Software totally inoperable and thus endanger patients of hospitals serviced by FSL. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 5.) According to Diener, FSL subsequently asked Devcom to remove numerous bugs in the NLFC Software that NLFC was unwilling and/or unable to remove. Thereafter, Diener states, FSL asked Devcom to take over the enhancement of the NLFC Software in their possession. (*Id.*) Alec Stapleton asserts that FSL has not had any dealing with NLFC or its predecessor since 1990 and has no current intention to resume any further business. (Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, ¶ 5.)

Devcom was then approached by Cabrini. According to Diener, Cabrini made this contact based on a referral from FSL. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 6.)[11] Cabrini employed Devcom to modify the NLFC Software in Cabrini's possession for the purpose of removing the bugs in the NLFC Software because NLFC was unwilling or unable to perform such a task, Jeffrey Kessler asserts. (Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, ¶ 7.) This sequence of events, Kessler observes, left Cabrini extremely dissatisfied with NLFC's performance. (*Id.*)

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[10]Diener does not specify when FSL approached Devcom.

[11]Again, Diener does not mention any date for this contract.

Devcom has, on behalf of its clients Cabrini and FSL, modified and enhanced the NLFC Software in its clients' possession for the purpose of removing the bugs in the NLFC Software and to enable the NLFC Software to be run on the clients' computers. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 4; Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, ¶ 6; Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, at ¶ 4.) This was done using telephone lines, dedicated telephone lines, and on-site efforts. (*Id.*)[12]

Mr. Diener denies that Devcom ever obtained a copy of the NLFC Software or that Devcom ever marketed any modifications or enhancements of the NLFC

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[12]NLFC responds in paragraph 21 of its Rule 12(n) Statement that it cannot assess the veracity of the statements contained in paragraph 21 of Devcom's Rule 12(m) Statement because "insufficient discovery has been conducted at this time to make such a determination." Such a response is inadequate under the local rules. Local Rule 12(n) requires the nonmoving party to respond to each numbered paragraph in the moving party's 12(m) Statement, and in the case of any disagreement, to support its position through specific references to affidavits, parts of the record, and other supporting materials relied upon. All material facts set forth in the moving party's Rule 12(m) Statement "will be deemed to be admitted unless controverted by the statement of the opposing party." (Local Rule 12(n).) Accordingly, Devcom's statements in paragraph 21 of its 12(m) Statement are deemed admitted. Devcom has made no motion to stay either the briefing of this motion or its consideration and determination for purposes of conducting further discovery.

Software. He asserts in his affidavit that Devcom (1) has never obtained a copy of the NLFC Software (except a viewable print-out necessarily required for modification purposes), (2) has never marketed, offered to sell or sold any copies, modifications or enhancements of the NLFC Software, (3) has never copied the NLFC Software (except to create a viewable print-out necessarily required for modification purposes) and (4) has never marketed, offered to sell or sold the UNIX-modified software to any person or entity. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 3.)

Devcom also submits affidavits from representatives of both Cabrini and FSL denying that either of their institutions ever provided a copy of the NLFC Software to Devcom. The Director of Information Services at Cabrini, Jeffrey Kessler, asserts in his affidavit that Cabrini has never delivered a copy of the NLFC Software to Devcom. (Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, ¶ 5.) Finally, Alec J. Stapleton, Laboratory Information Systems Manager of FSL, states that FSL has never delivered a copy of the Lab Force software to Devcom. He adds that Devcom has never made a copy of the Lab Force software (except a viewable printout required for modification purposes); marketed, offered to sell or sold any copies of the Lab Force software to any person or entity; or made any modifications or enhancements of the Lab Force software for FSL except as provided below. (Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, at ¶ 3.)

According to Diener, Devcom has been approached by the executives of NLFC to both provide maintenance and support for the NLFC Software, and to act as a distributor of the NLFC Software. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 7.) Diener explains that Devcom declined both invitations on the basis that Devcom's reputation would be adversely

affected if it became known that the products of NLFC -- the NLFC Software -- were being marketed by Devcom. (*Id.*) Diener adds that Devcom has never modified and/or enhanced the NLFC Software for any other licensee of NLFC or for any other entity or person whatsoever other than Cabrini and FSL. (*Id.* at ¶ 8.)

On January 12, 1993, NLFC filed an Application for Copyright ("Application") with the U.S. Copyright Office to obtain copyright registration of its software entitled "NLFC HYBRID Lab Information System Computer Program." Section 4 of the Application states that NLFC claims ownership to the NLFC Software as the result of being "successor to author," or, Lab Force. Section 5 of the Application states that there has been no earlier registration made for either the NLFC Software or any earlier version of that software.

Allegations of the Complaint

NLFC resells computer hardware manufactured by others, as well as develops and licenses its own computer software. NLFC developed the design, modifications, source code and object code, and unique business procedures for this software. NLFC alleges that these practices constitute valuable trade secrets which give NLFC a competitive advantage. (Am. Compl. ¶ 4) NLFC is a successor in interest to the assets of a Texas corporation known as Lab Force, Inc., which filed for bankruptcy under Chapter 7 of the Federal Bankruptcy Act. NLFC acquired the company's assets after they had been foreclosed and transferred to Lab Force's secured creditors. Since 1978, NLFC and Lab Force designed, developed, manufactured, and maintained computer software products for use in medical pathology laboratories. (*Id.* ¶ 5.)

NLFC licenses use and possession of its software to operate on certain computer hardware manufactured by other companies. One such software version ("Prime Version of NLFC Software") runs on the hardware manufactured by a company known as Prime Computers. NLFC has also developed software ("UNIX Version of NLFC Software") to operate in conjunction with the UNIX system developed by Bell Labs in the 1960s. Because the UNIX operating system works on many different hardware products, the UNIX Version of NLFC also functions on different hardware -- in contrast to the Prime Version of NLFC Software, which runs only on a Prime Computer. (*Id.*) NLFC's licensing agreements protect NLFC Software as both trade secrets and copyrighted works. (*Id.* ¶ 6.)

In Count I of its four-count complaint, NLFC charges Devcom with copyright infringement under the Copyright Act of 1976, 17 U.S.C. 501 *et seq.* NLFC alleges that its software contains original, copyrightable material. NLFC or its predecessor, Lab Force, has been the sole owner of all right, title, and interest in and to the NLFC Software, in all its versions, since the first versions were created. NLFC and its predecessor, Lab Force, have complied with the provisions of the 1976 Copyright Act and all other laws governing copyright to secure the exclusive rights in, and privileges to, the copyrights of the NLFC Software. In January, 1993 NLFC registered the copyright in the NLFC Software in the U.S. Copyright Office. Since 1978, only NLFC or Lab Force has legally produced or marketed the NLFC Software. (*Id.* ¶ 12.) NLFC alleges that Devcom infringed NLFC's copyrights in the NLFC Software by preparing derivative works based on the NLFC Software and by marketing enhancements and adaptations of the NLFC Software. (*Id.*)

In Count II, NLFC alleges that Devcom misappropriated NLFC's trade secrets under Texas law, or in the alternative under Illinois law. NLFC or its predecessor,

Lab Force, has been the sole owner of all right, title, and interest in and to the NLFC Software and the NLFC Trade Secrets. NLFC and Lab Force have complied with the trade secret common law of Texas and the Illinois Trade Secrets Act. (*Id.* ¶¶ 17-19.) According to NLFC, Devcom has undertaken a campaign to acquire and utilize NLFC's trade secrets for Devcom's commercial and private advantage to the detriment of NLFC's exclusive right, title, and interest in its products and trade secrets. NLFC alleges that Devcom maliciously, knowingly, and with willful intent misappropriated NLFC's trade secrets. (*Id.* ¶20.)

In Count III, NLFC alleges that Devcom tortiously interfered with contractual relationships entered into between NLFC and its customers. Specifically, NLFC alleges that Devcom induced NLFC 's customers to provide it with NLFC's products and trade secrets, in violation of contractual provisions those customers had with NLFC. (*Id.* ¶ 27.)

Finally, in Count IV, NLFC charges Devcom with engaging in unfair competition with NLFC, to NLFC's detriment. (*Id.* ¶ 29.)

Devcom has moved for summary judgment regarding Count I of the complaint on the grounds that there is no dispute that it did not copy the NLFC Software. Devcom has also moved for summary judgment with regard to the rest of the complaint because NLFC did not join Cabrini and FSL as indispensable parties pursuant to Fed. R. Civ. P. 19. In addition, Devcom contends that NLFC is not entitled to statutory damages and attorney's fees under 17 U.S.C. § 412 because NLFC did not register its copyright until after the alleged infringement. Finally, Devcom urges this court to dismiss NLFC's remaining three state law counts (Counts II-IV) on the ground that pendent claim jurisdiction no longer exists once the federal copyright action is dismissed.

DISCUSSION

Summary judgment will be granted only if there is no genuine issue of material fact and the plaintiff is entitled to judgment as a matter of law. *Bourne Co. v. Hunter Country Club Inc.*, 990 F.2d 934, 938(7th Cir.), *cert. denied*, 1993 U.S. LEXIS 6380 (1993). The moving party bears the initial burden of demonstrating that there is no genuine issue of material fact in dispute. *Celotex Corp. v. Catrett*, 477 U.S. 317, 324 (1986). Once the moving party has stated that a fact is not in question, the burden shifts to the nonmoving party to demonstrate through affidavits or depositions that there is some genuine issue for trial. *Id.* at 325. Where the nonmoving party fails to make a showing sufficient to establish the existence of an essential element on which it would bear the burden of proof at trial, summary judgment should be entered against it. *Fitzpatrick v. Catholic Bishop of Chicago*, 916 F.2d 1254, 1256 (7th Cir. 1990). The moving party is not required to negate its opponent's claim. *Id.*

I. Copyright Infringement

In Count I of its complaint, NLFC charges Devcom with copyright infringement under the Copyright Act of 1976, 17 U.S.C. § 501 *et seq*. Under § 501(a) of the Act, any action that is inconsistent with a copyright owner's exclusive rights constitutes infringement. A copyright holder has the exclusive rights of reproduction, preparation of derivative works,[13] distribution, performance, and display. 17 U.S.C. § 106 (1977 & West Supp. 1993).

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[13]"Derivative works" are defined to include translations and any form in which a work may be recast, transformed or adapted. 17 U.S.C. § 101.

To prevail on its claim of copyright infringement, NLFC must prove ownership of a copyright and a "'copying' of protectable expression" beyond the scope of a license. *Mai Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (9th Cir. 1993) (quoting *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989)). NLFC has established the first prong of the test for copyright infringement. A certificate of registration, if timely obtained, constitutes *prima facie* evidence of the validity of the copyright and of the facts stated in the certificate. 17 U.S.C. § 410(c).[14] Devcom does not dispute that NLFC owns a valid copyright in and to the NLFC Software, having an effective date of January 12, 1993. (Defendant's Rule 12(m) Statement, ¶ 14; Defendant's Reply, at 3.)

A plaintiff may prove the second element of the test, i.e., copying, either by direct evidence or by establishing that the defendant had access to the plaintiff's copyrighted work and that the defendant's work is substantially similar to the copyrightable material. *Atari Games Corp. v. Nintendo of America, Inc.*, 975 F.2d 832, 837-38 (Fed. Cir. 1992).

A. Devcom's Alleged Copying of the NLFC Software

NLFC alleges that Devcom infringed NLFC's copyrights in the NLFC Software by preparing derivative works based on the NLFC Software and by marketing

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[14]The fact that NLFC apparently did not register this copyright until after Devcom's alleged infringement does not preclude NLFC from recovering for infringement of these copyrights occurring before the date of registration. *Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27, 33 (2nd Cir. 1982); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* § 12.08 at 12-113 (1992).

enhancements and adaptations of the NLFC Software. (Am. Compl. ¶ 12) Specifically, NLFC alleges that Devcom obtained a copy of its Software from licensees, modified and enhanced that software to run on UNIX, and then marketed the modified software to licensees of NLFC software. (*Id.* ¶ 7.)

Devcom vehemently denies these allegations. It has furnished an affidavit from its president Ronald G. Diener, denying that Devcom has ever obtained a copy of the NLFC Software; marketed, offered to sell, or sold any copies, modifications, or enhancements of the NLFC Software; copied the NLFC Software; or marketed, offered to sell, or sold the UNIX-modified software to any person or entity. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 3.) Devcom has also supplied the affidavit of Jeffrey Kessler, Cabrini's Director of Information Services, who asserts that Cabrini never delivered a copy of the NLFC Software to Devcom. (Aff. of Jeffrey Kessler, Ex. B to Devcom's Rule 12(m) Statement, ¶ 5.) Finally, Devcom provides the affidavit of Alec J. Stapleton, FSL's Laboratory Information Systems Manager, who asserts that FSL has never delivered a copy of the Lab Force software to Devcom. He adds that Devcom has never made a copy of the Lab Force software (except a viewable printout required for modification purposes); marketed, offered to sell or sold any copies of the Lab Force software to any person or entity; or made an modifications or enhancements of the Lab Force software for FSL. (Aff. of Alec J. Stapleton, Ex. C to Devcom's Rule 12(m) Statement, at ¶ 3.)

Although NLFC characterizes the testimony from these affidavits as simply "not true" (Plaintiff's Rule 12(n) Statement, ¶ 20), NLFC does not supply any affidavits of its own contesting Devcom's affidavit testimony. NLFC asserts that "Devcom has at least two copies of plaintiff's software, one copy on the computer and one copy in hard

copy form" (*id.*), but in support provides only a single page from the deposition of Jon Kristofferson, Devcom's Director of Software Development. As the following exchange illustrates, Kristofferson did not in fact testify that Devcom had two copies of the software:

> Q: [Y]ou still have Exhibit No. 1 there in front of you, and am I wrong, isn't that a Lab Force program?
> A: It says Lab Force.
> Q: It also says Devcom. Does that mean it was printed out at Devcom's offices?
> A: Yeah, I would say it was.
> Q: Do you know where that particular program . . . came from?
> A: No.
> Q. Was it printed at Devcom's office?
> A: Yes.

(Ex. A to Plaintiff's Rule 12(n) Statement, at 121.) Kristofferson merely testified that Devcom had possession of a viewable print-out.

Local Rule 12(m) provides in part that "[a]ll material facts set forth in the statement required of the moving will be deemed admitted unless controverted by the statement of the opposing party." NLFC's citation to the Kristofferson deposition is insufficient under the local rules because it fails to contradict DEVCOM's assertion that the only "copy" it ever had was a printout for purposes of modification. Because NLFC failed to properly contest Devcom's facts denying any copying or marketing of NLFC Software, none of the cited assertions in the affidavits of Diener, Kessler, or Stapleton are in dispute. The facts therefore establish that the only "copy" of the software in DEVCOM's possession was a printout used for the purpose of modifying the program as allowed in the CABRINI and FSL licensing agreements. See

Bourne Co. v. Hunter Country Club, Inc., 990 F.2d 934, 938 (7th Cir.) (affirming summary judgment in favor of plaintiff copyright owners against defendant country club which played songs copyrighted by plaintiffs, where defendant failed to deny plaintiffs' facts setting forth a prima facie case of infringement), *cert. denied*, 1993 U.S. LEXIS 6380 (1993); *Fitzpatrick v. Catholic Bishop of Chicago*, 916 F.2d 1254, 1256-57 (7th Cir. 1990) (affirming grant of summary judgment where nonmoving party failed to "point[] [court] toward contradictory evidence as [it] must to defeat the summary judgment motion"; "[t]he days are gone, if they ever existed, when the nonmoving party could sit back and simply poke holes in the moving party's summary judgment motion.")

NLFC next asserts in its Rule 12(n) Statement that Devcom had been "actively marketing modifications and enhancements of plaintiff's software and conversion to Unix based systems." (Plaintiff's Rule 12(n) Statement, at ¶ 20.) In support of this assertion, NLFC offers a letter from Kristofferson and Diener to Walter Girod of Our Lady of the Lake Regional, of Baton Rouge, Louisiana, dated November 19, 1992. NLFC does not specify what language in this three-page letter it finds particularly relevant. In the letter, Kristofferson and Diener explain that Devcom has extensive experience servicing Prime hardware, the PRIMOS operating system, the UNIX operating system, and the Lab Force system. They note that Devcom personnel has provided various forms of assistance for Lab Force customers, including the implementation and enhancement of the Lab Force system. Presumably, NLFC seeks to draw attention to the final paragraph of the letter:

> All of our customers have expressed an interest in forming a Lab Users Group. Would you be interested in attending? We would be delighted

> to entertain your questions in what Devcom can do for your [sic] and your organization. If you are interested in the relationships we have developed with other Lab Force customers, references are available.

(Ex. B to Plaintiff's Rule 12(n) Statement.) This letter fails to support any contention that Devcom ever had a copy of the NLFC Software or marketed modifications or enhancements of the software.[15]

Devcom has presented affidavits from those individuals at Cabrini and FSL responsible for information services, asserting that Devcom engaged in its debugging activities at the request of both licensees. NLFC has not supplied any affidavits, however, which controvert Devcom's own affidavits denying any unlawful activities on the part of Devcom involving the NLFC software.

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[15]Devcom's reply brief urges that further support for its position concerning the alleged marketing letter can be found in the exhibit attached to the reply. Devcom, however, does not refer to any relevant page numbers or passages in the entire exhibit -- some forty-five pages, not all sequential, of transcript from the Kristofferson deposition. It is not this court's obligation to wade through pages of deposition testimony without any citations or explicit references.

B. Whether the License Agreements Permitted Devcom to Modify or Enhance the NLFC Software

Devcom argues that its acquisition and use of the NLFC Software was not improper because it complied with the terms of the license agreements which NLFC entered into with Cabrini and FSL. Devcom contends that these agreements authorized a third party such as Devcom to debug, modify, and enhance the NLFC Software in the possession of Cabrini and FSL. The Cabrini agreement, for example, permits Cabrini to copy the NLFC Software when "reasonably necessary for licensed use and in normal backup procedures":

> 6.2.2 [Cabrini] agrees not to copy the COMPUTER SOFTWARE covered by this Agreement in any manner except as reasonably necessary for licensed use and in normal backup procedures, without the express written consent of LAB FORCE.

The agreement also authorized Cabrini to modify any of the software and form an updated work:

> 6.2.4 [Cabrini] may modify any of the COMPUTER SOFTWARE, integrate it into other program material or form an updated work; provided, however, that the use of any portion of the COMPUTER SOFTWARE included in any modified, integrated or updated work shall only be for PURCHASER. .

Furthermore, the agreement permitted Cabrini to use the software source code "for the purposes of modification, maintenance, enhancement, and integration":

> 6.2.7 LAB FORCE shall give to [Cabrini] copies of the source code corresponding to all LICENSED SOFTWARE including but not limited to, each application, compiler, file structure, database handler and file layout corresponding thereto. [Cabrini] may use the foregoing for purposes of modification, maintenance, enhancement and integration by [Cabrini].

Finally, Section 6 of the settlement agreement between NLFC and Devcom permits FSL to secure from any source maintenance and support services which FSL deems necessary:

> [Lab Force] agrees that FSL may obtain maintenance and support services from whatever source FSL deems necessary.

NLFC makes no attempt to argue that Devcom's actions contravened the terms of the license agreements. In its Rule 12(n) Statement, in fact, NLFC admits that the Cabrini Agreement permitted Cabrini to copy, modify, maintain, integrate, and enhance the NLFC Software (Devcom's Rule 12(m) Statement, ¶ 17; NLFC's Rule 12(n) Statement, ¶ 17) and that the FSL Agreement allowed FSL to use the services of a third party to maintain and support the NLFC Software (Devcom's Rule 12(m) Statement, ¶ 18; Devcom's Rule 12(n) Statement, ¶ 18.). NLFC thus has failed to show how Devcom's actions are inconsistent with the terms of license agreements. Because NLFC has not raised any genuine issue of material fact regarding Devcom's compliance with the Copyright Act, Devcom's motion for summary judg-

ment on Count I should be granted.[16]

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[16]Devcom 's alternative argument that its actions are permitted by § 117 of the Copyright Act, 17 U.S.C. § 117(1), is insupportable. Section 117 sets forth a limitation on the exclusive rights of computer program copyright owners: the provision allows an "owner of a copy of a computer program" to make or authorize the making of another copy or adaptation of that computer program, provided that a copy is an "essential step in the utilization of the computer program in conjunction with a machine and . . . it is used in no other manner." 17 U.S.C. § 117(1). Devcom argues that § 117 does not prohibit Cabrini or FSL from using the services of a third party such as itself to modify and enhance the NLFC Software.

To show that a third party such as itself is authorized to adapt the NLFC Software, however, Devcom must first demonstrate that licensees such as Cabrini and FSL constitute "owners" of a copy of computer programs for purposes of § 117(1). Devcom cannot so demonstrate. Various courts have rejected the notion that licensees can be characterized as "owners" under the statute. *See Mai Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511,518 n.5 (9th Cir. 1993) ("Since [plaintiff software designer] licensed its software, the [customers of defendant computer company] do not qualify as 'owners' of the software and are not eligible for protection under § 117."); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1089 n.9 (9th Cir. 1989) (citing § 117; "[a]n owner of a copy of software has certain rights under the Copyright Act which a mere possessor does not"); *CMAX/Cleveland, Inc. v. UCR, Inc.*, 804 F. Supp. 337 (M.D. Ga. 1992) (even though licensee of copyrighted computer software system possessed source

II. Joinder of Cabrini or FSL

Devcom argues that it is entitled to summary judgment regarding the entire complaint because NLFC failed to join Cabrini and FSL as indispensable parties, pursuant to Fed. R. Civ. P. 19. A summary judgment, however, is generally deemed to be an inappropriate method of disposing a case for failure to join an indispensable party; more typically, a motion is made under Rule 12(b)(7), which specifically refers to the defense of "failure to join a party under Rule 19." 7 Charles A. Wright, Arthur R. Miller, & Mary K. Kane, *Federal Practice and Procedure*: Civil 2d § 1609, at 128, 133 (1986). A dismissal under Rule 12(b)(7) is not regarded to be on the merits. *Id.* at 133. Devcom's motion will be treated here as a motion to dismiss brought under Rule 12(b)(7).

In determining whether to dismiss an action for failure to join an indispensable party, the court must undertake a two-step analysis under Fed. R. Civ. P. 19. Under Rule 19, the threshold question is whether the person in question is "necessary," or whether:

> (1) in the person's absence complete relief cannot be accorded among those already

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and object codes, licensee's possession of these codes did not make it an "owner" of the codes for purposes of § 117). In fact, when Congress enacted the Computer Software Copyright Act in 1980, it replaced the former Section 117 with a new version which granted "owners," as opposed to "rightful possessors," a limited right to copy and adapt their software. *Vault Corp. v. Quaid Software Ltd.*, 847 F.2d 255, 260 n.11 (5th Cir. 1988) (reviewing legislative history).

> parties, or (2) the person claims an interest relating to the subject of the action and is so situated that the disposition of the action in the person's absence may (i) as a practical matter impair or impede the person's ability to protect that interest or (ii) leave any of the persons already parties subject to a substantial risk of incurring double, multiple, or otherwise inconsistent obligations by reason of the claimed interest. . .

Fed. R. Civ. P. 19(a). Only if a person is deemed "necessary" under Rule 19(a) must the court consider the second step of the analysis. *Novacolor, Inc., v. American Film Technologies, Inc.*, No. 91 C 6213, 1992 WL 170564, at *9, (N.D. Ill. July 16, 1992) (quoting *Vaupel Textilmaschinen KG v. Meccanica Euro Italia S.P.A.*, 944 F.2d 870, 876 n.1 (Fed. Cir. 1991)).

If the court determines that a presently nonjoined person is necessary, then it must either "order that the person be made a party," or, if such a person is not subject to the court's jurisdiction, "the court shall determine whether in equity and good conscience the action should proceed among the parties before it, or should be dismissed. . . ." Fed. R. Civ. P. 19(a),(b). In making the latter determination, the court shall consider four factors:

> [F]irst, to what extent a judgment rendered in the person's absence might be prejudicial to the person or those already parties; second, the extent to which . . . the prejudice can be lessened or avoided; third, whether a judgment rendered in the person's absence will be adequate; fourth, whether the plaintiff will have an adequate remedy if the action is dismissed for nonjoinder.

Fed. R. Civ. P. 19(b). Thus only after the court has assessed both steps of the analysis -- and concluded that the case must be dismissed -- may a party properly be deemed indispensable. *Id.*; *see also Wade v. Hopper*, 993 F.2d 1246, 1249 (7th Cir.) ("The test for an indispensable party is whether justice cannot be done unless it is joined."), *cert. denied*, 1993 U.S. LEXIS 5725 (1993).

Devcom asserts that (l) Cabrini and FSL are necessary parties to NLFC's action; (2) Cabrini and FSL have not yet been joined as parties to this suit; (3) because Cabrini and FSL are intimately connected with this lawsuit, the court's disposition -- whether it be the granting of an injunction or an order for impoundment, destruction, or forfeiture -- would impair or impede their ability to protect their interests in the NLFC Software; and (4) Devcom risks exposure to double or multiple liability from Cabrini and FSL under the license agreements, should this court's decision render Devcom unable to modify or enhance the NLFC Software.

Without elaboration, Devcom characterizes the circumstances here as "precisely" the same as those in *Colmol Co. v. Goodman Mfg. Co.*, 132 U.S.P.Q. 126 (N.D. Ill. 1961). Devcom's discussion of that case consists solely of the following quotation from Judge Parsons' opinion: "If, however, the licensee's interests are in fact to be affected by the decree, he is a proper party, and the court may require him to be joined." (Defendant's Motion, at 7-8 (quoting *Colmol Co.*, 132 U.S.P.Q. at 128).) Devcom thus urges that under Fed. R. Civ. P. 19, Cabrini and FSL are indispensable parties and the complaint should be dismissed.

In *Colmol Co.*, plaintiff patent owner sought to enjoin defendant from infringing its patented invention -- machines that could be used to dig coal. Defendant challenged the validity of the patents on the grounds that

they were lacking in invention and novelty. Defendant moved to join a third party which defendant characterized as a "necessary party" -- a manufacturing company to which Colmol had granted an exclusive license to manufacture, use, and sell its machines over a five-year period.

The *Colmol* court granted the motion. While he acknowledged that a simple licensee lacks a sufficient interest to become a necessary or indispensable party in an infringement suit, Judge Parsons explained that the third-party licensee was "something greater than a simple licensee." 132 U.S.P.Q. at 128. In order for the court to reach a full determination, Judge Parsons reasoned, it was necessary for the licensee to be joined as a party plaintiff. *Id.*

Unlike the third-party licensee in *Colmol*, Cabrini and FSL are not exclusive licensees. The license agreements themselves explicitly state that Lab Force granted non-exclusive licenses to the two medical facilities.[17] The distinction, for purposes of Devcom '

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[17] Lab Force's license agreement with Cabrini states:

> 6.2.1 LAB FORCE hereby grants to [Cabrini] a non-exclusive, perpetual and non-transferable license to use the COMPUTER SOFTWARE describe [sic] in Exhibits A-I, A-2, A-3, A-4 and B only in conjunction with the DESIGNATED COMPUTER . . .

(Ex. B to Devcom's Rule 12(m) Statement (emphasis added).)

motion here, is crucial:

> [A] bare or nonexclusive licensee has been viewed as neither a necessary nor even a proper party to an infringement suit. This is because the license merely confers the right to do something that would not be permitted in its absence, but it does not guarantee that the licensee shall enjoy the benefits of the monopoly. Consequently, should the patent or copyright be infringed, the nonexclusive licensee theoretically has suffered no legal injury that justifies his participation in the action.

7 Charles A. Wright, Arthur R. Miller & Mary K. Kane, *Federal Practice and Procedure*: Civil 2d § 1614, at 214-15 (2d ed. 1986) (footnote omitted). While a non-exclusive licensee has no property interest in the patent/copyright monopoly, an exclusive licensee has the assurance of the patent/copyright owner that others shall be prevented from using the patent/copyright. *In-Tech Marketing Inc. v. Hasbro, Inc.*, 685 F. Supp. 436, 439 (D. N.J. 1988).

Lab Force's agreement with FSL provides:

> FSL shall have and shall continue to have a perpetual, non-exclusive, non-transferable license to use the Lab Force Software . . ., which license . . . shall extend to "WFSI Hospitals" and "Referral Laboratories."

(Ex. C to Devcom's Rule 12(m) Statement, § 4 (emphasis added).)

A similar set of circumstances arose in *Ocasek v. Hegglund*, 673 F. Supp. 1084 (D. Wyo. 1987), a case not cited by either party. In *Ocasek*, plaintiff copyright owners brought an infringement action against a bar owner who allegedly permitted various songs to be performed in her establishment in violation of plaintiffs' copyrights. Defendant moved to join the American Society of Composers, Artists, and Publishers ("ASCAP"), a non-exclusive licensee of plaintiffs' copyright, as an indispensable party. The court, however, found that under Fed. R. Civ. P. 19, ASCAP -- which acted as the licensing agent of each plaintiff -- was not the party in interest and was not essential to the full resolution of the dispute. The court thus denied plaintiffs' motion for leave to join ASCAP as a party. *Id.* at 1087.

There is a different element in the present case not found in the above cited cases. Not only is the issue of the possible violation plaintiff's trademark rights involved, which as pointed out above, is an issue as to which Cabrini and FSL as nonexclusive licensees are not necessary parties, but also there is the question of the interpretation of Cabrini and FSL's maintenance agreements with DEVCOM. It is by virtue of the maintenance agreement with Cabrini and FSL that DEVCOM claims its right to modify and enhance NLFC 's software to the extent that it has. However, I do not see this as an issue essential to the determination of the case. The thrust of NLFC's complaint is not that Devcom has violated its rights by enhancing, maintaining or modifying the program under its contract with Cabrini and FSL, but that it has done so for the purpose of commercializing, marketing and selling the enhanced version of the program. Furthermore, if this were not the case, if Cabrini and FSL actually were "necessary" parties under Rule 19(a) -- that is, if their practical ability to protect their interests were at stake, and they could not be adequately represented by Devcom -- then there would in all likelihood be no need to resort to

joinder, because Cabrini and FSL would be entitled to intervene as a matter of right under Fed. R. Civ. P. 24(a). *See Ferrofluidics Corp. v. Advanced Vacuum Components, Inc.*, 968 F.2d 1463, 1472 (1st Cir. 1992) (licensee of employer's magnetic field rotary seal technology was not indispensable party to employer's action against former employee for breach of restrictive covenant, even though licensee was under contract to sell seals to business formed by employee to compete with employer and lawsuit had impact on licensee's ability to market those seals). Yet Cabrini and FSL have made no attempt to intervene.

III. Statutory Damages and Attorney's Fees

NLFC argues that it is entitled to an award of statutory damages under 17 U.S.C. § 504[18] and attorney's fees under 17 U.S.C. § 505. (Am. Compl., Prayer for Relief, ¶¶ H, L, M.) Devcom contends that 17 U.S.C. § 412 precludes any such relief where, as is the case here, the alleged copying preceded the effective date of the registration of the copyright.

Section 412 of the Copyright Act prohibits the award of statutory damages or attorneys' fees unless the

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[18]Under Section 504(c)(1), the court, in its discretion, may award statutory damages in a sum between $500 and $20,000 per infringement. *See Chi-Boy Music v. Charlie Club, Inc.*, 930 F.2d 1224, 1229 (7th Cir. 1991) (identifying factors a court may consider in awarding fees and damages).

plaintiff registers its copyright prior to the infringement.[19] Indeed, Section 412 is plainly entitled "Registration as prerequisite to certain remedies for infringement." 17 U.S.C.A. § 412 (emphasis added); *Data General Corp. v. Grumman Sys. Support Co.*, 825 F. Supp. 361, 364 (D. Mass. 1993). Courts applying § 412 have barred recovery unless the plaintiff has shown that registration predated the infringement. *See Cable/Home Communication Corp. v. Network Productions, Inc.*, 902 F.2d 829, 850 (11th Cir. 1990) ("As a procedural matter, the plaintiff copyright owner must have registered the copyright prior to the infringement in order to obtain statutory damages."); *Evans Newton, Inc. Chicago Sys. Software*, 793 F.2d 889,

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[19]12 Section 412 provides:

> **Registration as prerequisite to certain remedies for infringement**
>
> In any action under this title . . . no award of statutory damages or of attorney's fees as provided by sections 504 and 505, shall be made for --
>
> (1) any infringement of copyright in an unpublished work commenced before the effective date of its registration; or
>
> (2) any infringement of copyright commenced after first publication of the work and before the effective date of its registration, unless such registration is made within three months after the first publication of the work.

17 U.S.C.A. § 412 (West Supp. 1993).

896 (7th Cir. 1986) (reversing an award of attorney's fees because § 412 prohibits such an award "unless the plaintiff registers its copyright prior to the infringement"), cert. denied, 479 U.S. 949 (1986); *Data General Co.*, 825 F. Supp. at 364 (relying on *Cable/Home Communication Corp.* and *Evans Newton, Inc.*). Thus NLFC bears the burden of demonstrating that it complied with the prerequisite of § 412.

NLFC has failed to offer any argument as to why § 412 should not apply here. Puzzlingly, NLFC focuses instead on the interpretation of the term "publication" under the Copyright Act.[20] NLFC asserts that its request for statutory damages and attorney's fees is appropriate here because "there is a genuine issue of material fact concerning when NLFC published the software." (Plaintiffs Opposition, at 6.) NLFC provides no further elaboration.

The date of publication is not at issue. On its registration application dated January 12, 1993, NLFC had left blank the instruction for the date and nation of the

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[20]NLFC's opposition brief never identifies which provisions of Title 17 Devcom has allegedly misinterpreted. For example, NLFC asserts:

> Devcom has misinterpreted the portions of Title 17 of the United States Code, to which it refers. NLFC submits that the "publication" term as used in those statutes is one of the issues at the heart of the controversy before this Court.

(Plaintiff's Opposition, at 6.)

first publication of the particular work. (Ex. A to First Amended Complaint.) NLFC does not dispute that section 3 of this application stated that there had been no publication of the NLFC Software. (Plaintiff's Rule 12(n) Statement, ¶ 12.) Yet NLFC's evidence in support of its charges of infringement focuses solely on activity prior to the date of registration. (*See* Dep. of Jon Kristofferson, Ex. A to Plaintiff's Rule 12(n) Statement; Computer Printout of 7/1/92, Ex. 1 to Plaintiffs Rule 12(n) Statement; Letter from Kristofferson and Ronald Diener to Walter Girod of 11/19/92, Ex. B to Plaintiff's Rule 12(n) Statement.) The publication date of the NLFC Software does not constitute a genuine issue of material fact.

Consequently, NLFC should not qualify for statutory damages or attorney's fees because it has shown that it registered the copyright before the alleged infringement. NLFC should be limited to recovering its actual damages and Devcom's profits, if any, for Devcom's alleged infringement under 17 U.S.C. § 504(b).

IV. Pendent State Law Claims

In its remaining three counts, NLFC brings pendent state claims against Devcom for misappropriation of its trade secrets (Count II), tortious interference with its contractual relationships (Count III), and unfair competition (Count IV). In the alternative, NLFC alleges that this court has diversity jurisdiction over these claims. Devcom has moved for summary judgment on all three counts on the ground that the court no longer retains pendent claim jurisdiction over these state law counts once the federal copyright action is dismissed. Devcom adds that in the absence of a claim for statutory damages under 17 U.S.C. § 504(c) of the Copyright Act, Counts II, III, and IV do not adequately allege damages in excess of $50,000 for the application of diversity jurisdiction.

In determining whether to retain or dismiss pendent state claims, the district judge has broad discretion in making a managerial judgment on whether to allow plaintiff to bring one case in federal court or force him to litigate his state claim in state court. *Duckworth v. Franzen*, 780 F.2d 645, 656 (7th Cir. 1985), *cert. denied*, 479 U.S. 816 (1986). When all federal claims are dismissed before trial, the district court should relinquish its pendent claim jurisdiction. *United Mine Workers v. Gibbs*, 383 U.S. 715 (1966); *Landstrom v. Illinois Dep't of Children & Family Servs.*, 892 F.2d 670, 679-80 (7th Cir. 1990); *Graf v. Elgin, Joliet and Eastern Ry. Co.*, 790 F.2d 1341, 1344 (7th Cir. 1986). Since NLFC's federal copyright action should be dismissed against Devcom, NLFC's state law claims should also be dismissed under the doctrine of pendent jurisdiction.

This court has already recommended that NLFC not be entitled to recover statutory damages. Consequently, under 17 U.S.C. § 504(b),[21] NLFC should only be

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[21] 17 U.S.C. § 504(b), provides, as follows:
Actual Damages and Profits. -- The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work.

permitted to recover actual damages and any additional profits of Devcom, if any, attributable to the alleged infringement.[22]

NLFC, however, cannot obtain actual damages. Devcom has supplied an affidavit from its president, Ronald G. Diener, asserting that Devcom has never marketed, offered to sell, or sold any copies, modifications, or enhancements of the NLFC Software. (Aff. of Ronald G. Diener, Ex. A to Devcom's Rule 12(m) Statement, ¶ 3.) Devcom thus claims it has no lost profits to recover. (Defendant's Reply, at 14.) Although NLFC asserts in its opposition brief that "there is a great deal of money in controversy" (Plaintiffs Opposition, at 7), it has presented no evidence that it suffered any lost profits or that Devcom earned actual profits caused by the alleged infringement. Absent such a showing, NLFC should not be entitled to monetary relief. *See Hays v. Sony Corp. of America*, 847 F.2d 412, 415 (7th Cir. 1988) (actual damages not recoverable where copyright holders of word processor manual presented no evidence showing that they intended to publish their manual for profit); 3 Melville B. Nimmer & David Nimmer, *Nimmer on Copyright* §14.02[A] at 14-10, 14-11 (1992) ("In the absence of convincing evidence as to the volume of sales which plaintiff would have obtained but for the infringement, the measure of lost profits may be rejected as too speculative."). Because NLFC cannot show that it sustained actual damages resulting from the alleged infringement, NLFC cannot show that

---

[22] As Judge Shadur has pointed out, the statute entitles the copyright owner not to the sum of actual damages plus infringer's profits, but rather the greater of (1) its own actual damages and (2) the infringer's profits. *Respect Inc. v. Committee on Status of Women*, 821 F. Supp. 531, 532 (N.D. Ill. 1993).

$50,000 in controversy exists for purposes of diversity jurisdiction. Accordingly, NLFC's pendent state claims should be dismissed.

CONCLUSION

For the foregoing reasons, Devcom's motion for summary judgment should be granted. Because there is no genuine issue of material fact that Devcom did not copy the NLFC Software for commercial purposes and that NLFC's license agreements with Cabrini and FSL did allow Devcom to modify or enhance the NLFC Software, summary judgment should be granted in favor of Devcom on Count I. Devcom cannot show, however, that nonexclusive licensees Cabrini and FSL and essential parties to the complete resolution of this suit; accordingly, Devcom's request that Cabrini and FSL be joined as indispensable parties should be denied. In addition, because NLFC has not shown that it registered its copyright before the alleged infringement, NLFC should not be entitled to statutory damages or attorney's fees. Further, NLFC has failed to present any evidence to show that Devcom has marketed, sold or even offered to sell copies of NLFC 's software; accordingly, NLFC has not shown that it can establish an amount in controversy sufficient to maintain diversity jurisdiction. Finally, since NLFC's federal copyright claim should be dismissed, and there is no basis for diversity jurisdiction, the court can and should decline to take jurisdiction of the pendent state law claims (Counts II-IV).

Respectfully submitted,
/s/ RONALD A. GUZMÁN
United States Magistrate Judge

DATE: NOVEMBER 16, 1993

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No. 94-1708

IN THE

Supreme Court of the United States

OCTOBER TERM, 1994

NLFC, INC.,

Petitioner,

v.

DEVCOM MID-AMERICA, INC.,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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20pp

QUESTIONS PRESENTED

This case solely involves the interpretation of two license agreements, as both lower courts found and despite NLFC's rhetoric. Devcom[1] strongly objects to NLFC's presentation of the Questions Presented for that reason and also for the reason that it terribly misstates the record in this case.

The unqualified statement that "Devcom printed on its own computers the source code of [the] NLFC software" is wholly untrue, is directly contradicted by Devcom's uncontroverted evidence and has no factual support whatsoever as the Seventh Circuit found. Moreover, NLFC totally misstates the Seventh Circuit's opinion. The Seventh Circuit held that NLFC failed to show any evidence of "copying" and that even if Devcom had engaged in "copying" this was specifically permitted by the two license agreements in issue.

NLFC has not even questioned the holding of the Seventh Circuit. If it had, the questions presented would have been as follows:

> 1. Was the decision of the Court of Appeals that NLFC failed to create a genuine issue of material fact as to whether Devcom had ever copied the NLFC software onto its in-house computer system and had ever illegally marketed any NLFC software (NLFC's sole contentions before the Court of Appeals) fully supported by the undisputed facts of this case?
>
> 2. Was the decision of the Court of Appeals that even if Devcom had copied the NLFC software onto its in-house computer the same was fully authorized under its two license agreements as a matter of law?

---

[1] Devcom has no parent companies or subsidiaries within the meaning of Supreme Court Rule 29.1.

Since NLFC has not questioned the Seventh Circuit's holding, the above questions will only be considered in passing. Moreover, in view of that fact the only questions presented in its Petition are as follows:

1. Should NLFC be permitted to use the Petition to raise for the first time an issue that was never raised below and that therefore neither the District Court, the Court of Appeals nor Devcom ever considered?

2. Was the Court of Appeals correct in finding that N.D.Ill. Local Rule 12(n) is wholly consistent with Fed.R.Civ.P. 56 and that those portions of NLFC's 12(n) Statement which consisted merely of conclusions and mischaracterizations of the record could not be considered?

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On Petition for Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit

RESPONDENT'S BRIEF IN OPPOSITION

TO THE HONORABLE SUPREME COURT:

The Respondent, Devcom Mid-America, Inc., respectfully requests that this Court deny the Petition for Writ of Certiorari submitted by NLFC, Inc.

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

17 U.S.C.A. § 117:

Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided: (1) that such a new copy or adaptation is created as an essential

step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner. . .

Fed.R.Civ.P. 56(e):

. . . When a motion for summary judgment is made and supported as provided in this rule, an adverse party may not rest upon the mere allegations or denials of the adverse party's pleading, but the adverse party's response, by affidavits or as otherwise provided in this rule, must set forth specific facts showing that there is a genuine issue for trial. If the adverse party does not so respond, summary judgment, if appropriate, shall be entered against the adverse party.

STATEMENT OF THE CASE

This case involves the interpretation of two licensing agreements entered into by NLFC's predecessor-in-interest, Lab Force, Inc. ("Lab"): (1) the license agreement between Lab and Cabrini Medical Center ("Cabrini") and (2) the license agreement between Lab and Franciscan Shared Laboratory ("FSL"). Lab is the alleged copyright holder of certain software used in the hospital community.

As NLFC admitted in its brief before the Seventh Circuit, these license agreements gave Cabrini and FSL the contractual authority to (i) modify and enhance their Lab software so as to make it operational, (ii) make copies of the Lab software for such purposes and (iii) use third parties, such as Devcom, to perform the modifications and enhancements.

Pursuant to this authority, Devcom obtained a viewable print-out of the Lab software for the purposes of remov-

ing "time-bombs"[2] from and debugging, modifying and enhancing Lab's software for Cabrini and FSL. This was done to enable these hospital centers to protect the lives of thousands of innocent patients when NLFC was unable or unwilling to do so.

While Devcom necessarily had to view the Lab software to do its debugging operations, all Devcom ever printed out at its offices were its own proprietary modification logs and not any Lab software at all. Those modification logs were printed on a dedicated dumb terminal linked to Cabrini and FSL's computers by telephone, not from Devcom's own computer.

NLFC filed its initial complaint against Devcom alleging that Devcom had modified its software, made copies of the same and then marketed the modified software. This complaint, containing allegations solely based on information and belief, was dismissed by the District Court for that reason. An amended complaint ("Complaint") deleting all references to information and belief but otherwise word for word the initial complaint, was then filed. Devcom's motion for summary judgment was filed shortly thereafter.

On November 16, 1993, the Magistrate Judge recommended that Devcom's motion for summary judgment on the copyright infringement portion of NLFC's Complaint be granted, finding that the license agreements permitted Devcom to debug the Lab software and that Devcom never marketed any modified software. He also recommended that the state law counts of the Complaint be dismissed.

---

[2] Internal programs installed by Lab which illegally rendered its software wholly inoperable at preset times thus endangering the lives of patients. NLFC Appendix, at 23.

On January 4, 1994, the District Court adopted the recommendations of the Magistrate Judge, finding that as a matter of law Devcom's use of the Lab software was within the licenses granted by Lab.

On appeal to the Seventh Circuit, NLFC claimed only that Devcom had "copied the NLFC software onto its in-house computer system" and "illegally marketed the NLFC software as modified." On January 19, 1995, the Seventh Circuit found that the purported evidence of such activities was not supported by the record and that even if such activities had occurred they were permitted by the terms of the licenses. It then affirmed the District Court's ruling on all counts of the Complaint.

In its Petition, NLFC for the first time in this litigation raises a new theory of copyright infringement. It alleges that Devcom printed NLFC's source code via a telephone line linking its Chicago-based printer to Cabrini's New York-based computer and that this conduct violates the Copyright Act (17 U.S.C.A. § 101 et seq.). NLFC has not sought review of the claims it brought before either the District Court or the Seventh Circuit and alleges no damages from Devcom's purported actions.

SUMMARY OF ARGUMENT

NLFC has not presented anything meeting the character of Supreme Court Rule 10's special and important reasons that this Court considers in acting on a Petition for a Writ of Certiorari.

NLFC's eleventh hour and sole argument is that Devcom printed NLFC's source code using a telephone line and that this printing was unauthorized. This argument is not supported by its Complaint, was never made to either the District Court or the Seventh Circuit, was never considered below and is factually incorrect.

With regard to this eleventh hour argument, it is uncontested that Devcom, after being approached and retained by Cabrini and FSL, printed "something" using a telephone line, more exactly a telephone line linking Devcom's printer to Cabrini's computer. But that "something" was merely Devcom's own proprietary modification log.

Moreover, the license agreements are determinative. Even if NLFC source code had been so printed, such printing was fully authorized by those very agreements. The license agreements specifically and unequivocally permitted Cabrini and FSL to (i) modify and enhance the Lab software, (ii) make a copy of the Lab software for such purposes and (iii) utilize third parties to perform such services, all as found below.

N.D.Ill. Local Rule 12(n) is fully consistent with Fed.R. Civ.P. 56, more precisely Fed.R.Civ.P. 56(e).

REASONS FOR DENYING THE WRIT

I.

AS A MATTER OF LAW THE PETITION SHOULD BE DENIED

For several reasons the Petition should be denied.

A. NLFC Raises None Of The Criteria Under Supreme Court Rule 10

Supreme Court Rule 10 sets forth the character of the reasons under which a Petition are to be considered. NLFC does not contend that it meets any of them. There is no conflict with decisions of any court of appeals or this Court regarding either the Copyright Act or the standards for summary judgment.

All NLFC suggests is the "broad implications . . . for the software industry." But this case presents no such implications. It simply requires reading and interpreting two unambiguous license agreements.

B. The Issue Raised In The Petition Has Nothing To Do With NLFC's Complaint

NLFC's Amended Complaint in this case alleges solely that Devcom modified Lab software, made copies of that modified software and then marketed and sold the copies. NLFC Appendix, at 19, 31. The issue raised in the Petition has nothing to do with these allegations, even under the liberal pleading provisions of the Federal Rules of Civil Procedure.

All NLFC alleges in the Petition is that Devcom printed NLFC's source code via a telephone line. No issue is raised as to any modifications having been made or of any efforts to market those modifications.

C. NLFC's Sole Issue Concerns A Matter Never Argued Before The District Court or Seventh Circuit

As shown, NLFC's latest and sole argument is that Devcom printed NLFC's source code via a telephone line and that this printing was unauthorized.

This argument was never made below.

The sole argument to the Seventh Circuit was that Devcom had "copied the NLFC software onto its in-house computer system"[3] and "illegally marketed the NLFC software as modified." NLFC Appendix, at 6. Neither argument is made to this Court notwithstanding the oblique references noted in n.3, supra.

In light of NLFC's eleventh hour position, Devcom is apparently forced to address this position even though (1) it was never called upon to do so before, (2) the lower courts never considered it and (3) thus the lower courts never ruled upon it.

It will do so merely to show that NLFC's latest position is wholly without merit and even though NLFC's actions are so fundamentally in error that the Petition should be denied on that basis alone. *E.E.O.C. v. Federal Labor Relations Authority*, 490 U.S. 19 (1986), citing *FTC v. Grolier, Inc.*, 462 U.S. 19 (1983) and *Rogers v. Lodge*, 458 U.S. 613 (1982).

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[3] NLFC's statements that "Devcom printed on its own computers the source code of [the] NLFC software" (page ii) and "[Devcom] maintain[ed] a copy on [its] third party's computer" (page 14) are neither true nor supported yet exemplifies NLFC's mischaracterizations of the record as both the District Court and Seventh Circuit found. NLFC Appendix, at 5, 21.

II.

THE STANDARDS FOR SUMMARY JUDGMENT

The standards for summary judgment are fully described in the Seventh Circuit's opinion.

In addition, in *Celotex v. Catrett*, 477 U.S. 317, 322-323, 325 (1986) this Court stated that:

> "In our view, the plain language of Rule 56(c) mandates the entry of summary judgment, after adequate time for discovery and upon motion, against a party who fails to make a showing sufficient to establish the existence of an element essential to that party's case, and on which that party will bear the burden of proof at trial. In such a situation, there can be no genuine issue as to any material fact, since a complete failure of proof concerning an essential element of the nonmoving party's case necessarily renders all other facts immaterial. . . [T]he burden is [not] on the party moving for summary judgment to produce evidence showing the absence of a genuine issue of material fact . . . the burden on the moving party may be discharged by 'showing'—that is, pointing out to the district court-that there is an absence of evidence to support the nonmoving party's case."[4]

A dispute about a material fact is genuine within the meaning of Rule 56 only if "the evidence is such that a reasonable jury could return a verdict for the nonmoving party . . . [and] the mere existence of a scintilla of evidence in support of the [non-movant's] position will be insufficient." *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 248, 252 (1986).

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[4] No further citation is required to negate the so-called standards under Rule 56 proffered by NLFC on page 10 of the Petition.

III.

NLFC DID NOT MEET ITS BURDEN TO SHOW THAT DEVCOM MADE A COPY OF ITS SOURCE CODE AND EVEN IF IT HAD SUCH COPYING WAS SPECIFICALLY PERMITTED BY THE LICENSE AGREEMENTS AND THE COPYRIGHT ACT

Since NLFC would bear the burden at trial of showing copyright infringement, that same burden applies on a motion for summary judgment. *Celotex*, supra.

A. All NLFC Showed was that Devcom Had Printed Devcom's Own Proprietary Modification Logs

NLFC supplied below one page of the Jon Kristofferson deposition testimony. That deposition refers to "Exhibit 1."

But Exhibit 1 (the second piece of "evidence" submitted to the lower court but mysteriously omitted from NLFC's Appendix) is merely Devcom's own proprietary modification log to the Lab software (containing for identification purposes the name of Lab Force, Inc. on its face). It is a four page document, in comparison to NLFC's source code which was hundreds of pages in length, and contains, inter alia, the following notations (lqk is a reference to Larry Koranda, the Devcom employee who did the debugging):

> "DEVCOM. lqk"
>
> "Modification Log"
>
> "07-02-91 RBE DEVCOM. Added semaphore calls for new transit phantom"
>
> "02-01-91. lqk. Set error diagnostics"
>
> "11.8.90 CFA at DEVCOM"
>
> "COMIRESULTS—DEVCOM COM1 RESULTSX4"
>
> "Open up the sleep time a bit to give the CPU a rest!"

Moreover, NLFC never supplied anything, let alone an affidavit, to contradict that Exhibit 1 was anything more than Devcom's own modification log. Since NLFC's eleventh hour position was never before the lower courts, the Seventh Circuit harmlessly assumed that this exhibit was actually NLFC source code even though it is uncontested that it was not.

One does not violate the Copyright Act by printing its own proprietary work.

B. Even if Devcom Had Copied Source Code, it was Fully Authorized to do so by the License Agreements and The Copyright Act

As shown, NLFC presented no summary judgment evidence to show that Devcom had copied its source code.

As Jon Kristofferson testified in his deposition:

> Q. "Did you ever make a copy of any NLFC software or any Lab Force software?
>
> A. "No.
>
> . . .
>
> Q. "To your knowledge, did anyone at Devcom ever make a copy of any Lab Force or NLFC software?
>
> A. "No."

Devcom supplied affidavits, deposition testimony and its Local Rule 12(m) Statement that it never had any copy of Lab software except as necessarily required for debugging purposes and that it never made a copy of any Lab software. Devcom also supplied the undisputed affidavits of three experts that it was impossible to debug the Lab software without seeing it in hard copy, an obvious conclusion due to its enormous complexity. And it is uncontested that Devcom serviced FSL and Cabrini solely

through on-site visits, telephone lines and dedicated telephone lines linked to Devcom's dumb terminal.[5]

But even if Devcom had made copies of the Lab software it was fully authorized to do so under the license agreements.

In its brief before the Seventh Circuit, NLFC finally admitted that FSL and Cabrini had the contractual authority to (i) modify and enhance the Lab software in their possession, (ii) make copies of the Lab software for such purposes and (iii) use third parties, such as Devcom, to perform the modifications and enhancements to the Lab software in their possession.

NLFC should never have maintained otherwise: it always had a copy of the two licenses in its possession, even though it attempted to keep these documents from Devcom in the face of Devcom's discovery requests.[6] Devcom ultimately had to obtain them directly from Cabrini and FSL.

Section 6 of the FSL license agreement (somehow ignored by NLFC in the Petition) specifically stated that

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[5] NLFC's statement on page 11 of the Petition that the "[Seventh Circuit] *inferred* that . . . Devcom had used telephone lines" is incorrect. Devcom's Local Rule 12(m) Statement and its numerous uncontested affidavits left nothing for anyone to "infer," particularly when NLFC submitted not one affidavit in this litigation let alone one contradicting Devcom's submissions. See, also, NLFC Appendix, at 25, n.12.

[6] In response to Devcom's request for "all license agreements, amendments thereto, and cancellations thereof, between either NLFC or Lab Force and its customers" NLFC stated as follows: "NLFC objects that Lab Force is not a party to this lawsuit and therefore cannot produce or object to production of its documents. NLFC objects to this request as it is too broad in scope, is vague, burdensome and propounded solely for the purpose of harassing NLFC. . ."

"FSL may obtain maintenance and support services from whatever source FSL deems necessary." Section 7 stated that "FSL agrees to keep all Lab Force Software and documentation confidential and not make any disclosures to third parties, with the exception of disclosures made pursuant to FSL's rights under this letter agreement."

Section 6.2 of the Cabrini license agreement provided for the "License of Lab Force Software" and specifically permitted Cabrini (i) "to copy [the Lab software] . . . as reasonably necessary for licensed use. . ." (§ 6.2.2) and (ii) to "modify any of the [software], integrate it into other program material or form an updated work" (§ 6.2.4). Paragraph 6.2.5 specifically made Cabrini "exclusively responsible for the supervision, management and control of its use of [the Lab software] to and through its agents and employees." Paragraph 6.2.7 also reflected that Lab gave Cabrini "copies of the source code" and permitted Cabrini "to use the foregoing for purposes of modification, maintenance, enhancement and integration. . ." Paragraph 8.4 reflected Cabrini's authority to disclose the software to third parties.

As stated by NLFC in its brief below (now contradicted at pages 7, 13 and 14 of the Petition):

> "The NLFC license agreements with FSL and Cabrini granted them authority to make copies of NLFC software. . ."
>
> "FSL was allowed to disclose the software source code to third parties for maintenance and support services. . ."
>
> "Whoever maintains NLFC's copyrighted software may view the software. . ."
>
> "The specific license agreements of NLFC's customers, FSL and Cabrini, permit these licensees to make reasonable copies of the NLFC copyrighted software for backup and maintenance."

> "The magistrate concluded that NLFC's license agreement with Cabrini authorized a third party such as Devcom to modify and enhance the NLFC software in the possession of Cabrini."

This case involves nothing more than reading and interpreting the two license agreements. See, also, NLFC Appendix, at 36, regarding acknowledgments made in NLFC's Local Rule 12(n) Statement.

Moreover, in view of the unambiguous terms of the license agreements no violation of the Copyright Act would have resulted even if Devcom had printed NLFC's source code.

First, it is only copying beyond the scope of a license that is prohibited and only unauthorized copying is proscribed. See, *MAI Systems Corp. v. Peak Computer, Inc.*, 991 F.2d 511, 517 (9th Cir. 1993) ("to prevail on a claim of copyright infringement, a plaintiff must prove ownership of a copyright and a copying of protectable expression *beyond the scope of a license*") (emphasis added); *S.O.S., Inc. v. Payday, Inc.*, 886 F.2d 1081, 1085 (9th Cir. 1989) and *ISC-Bunker Ramo Corp. v. Altech, Inc.*, 765 F.Supp. 1310 (N.D.Ill. 1990) (unauthorized and unlawful possession, copying and distribution).

Even if Devcom had printed a copy of Lab's software it would have done so solely to provide debugging, modification and enhancement services pursuant to Lab's explicit authorization.

Second, Section 117 of the Copyright Act also shows that Devcom had clear authority to copy the Lab software even though it never did so.

Section 117 states in pertinent part as follows:

> "Notwithstanding the provisions of section 106, it is not an infringement for *the owner of a copy of a com-*

> *puter program* to make *or authorize the making of another copy or adaptation of that computer program* provided: (1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner. . ." (emphasis added)

Courts have interpreted Section 117 according to its literal language. In *Foresight Resources Corp. v. Pfortmiller*, 719 F.Supp. 1006 (D.Kan. 1989) the defendant enhanced the plaintiff's program for the owner of a copy of the software. The plaintiff sought to enjoin such activities. The injunction was denied. See, also, *S.O.S.*, supra, at 1089 n.9.

Section 6.1.1 of the Lab/Cabrini license agreement states in pertinent part as follows:

> ". . . PURCHASER [Cabrini] *shall own all copies of the COMPUTER SOFTWARE provided to PURCHASER* under this Agreement and all copies made by PURCHASER pursuant to Paragraph 6.2.2. . ." (emphasis added).[7]

Since Cabrini was the owner of the copy of the Lab software it received from Lab, it had the unfettered right to "authorize the making of another copy or adaptation." Hence, even if Devcom printed a copy of NLFC's source code, it did so with the authority of Cabrini to permit Cabrini to utilize Lab's software in conjunction with its computer. Devcom did not require NLFC's approval.

As stated by NLFC in its brief to the Seventh Circuit:

> "Such copies may be made only if they are necessary as an essential step in utilizing the software but must

[7] Magistrate Judge Guzman did not focus on this section of the agreement, focusing only on Cabrini's status as a licensee. NLFC Appendix, at 37.

> be no more necessary than is reasonably necessary. . . In-house adaption is allowed under Section 117, provided they are not designed for widespread marketing."

Devcom could not agree more fully. Devcom never "exploited" anyone as NLFC suggests.

IV.

UNDER BASIC TENETS OF AGENCY LAW, EVEN IF DEVCOM HAD PRINTED NLFC SOURCE CODE IT HAD THE FULL RIGHT TO DO SO

Assuming that the two license agreements were not so specific and the law not so clear, the issue before this Court would be straightforward:

> If a copyright owner specifically authorizes a licensee to make a copy of its software for the purpose of debugging, modification and enhancement, can the licensee's duly appointed agent obtain or make such a copy solely and exclusively for the same limited purposes?

While this issue is another common law basis of Devcom's defense and one of the bases of the District Court's decision, it is totally ignored by NLFC.

Hornbook agency law supplies the obvious answer: a corporation can act only through its employees and agents and the authority of a corporate-principal can be exercised directly or through its agents. See, e.g., *Freeport Journal-Standard Pub. Co. v. Frederic W. Ziv. Co.*, 345 Ill.App. 337, 103 N.E.2d 153 (2d Dist. 1952); *Cnota v. Palatine Area Football Ass'n*, 227 Ill. App.3d 640, 592 N.E.2d 196 (1st Dist. 1992); *Clapp v. JMK/Skewer, Inc.*, 137 Ill.App.3d 469, 484 N.E.2d 918 (3d Dist. 1985); *United States v. Chicago Exp. Inc.*, 273 F.2d 751 (7th Cir. 1959) and *Marbro Foods, Inc. v. United States*, 293 F.Supp. 754 (E.D.Ill. 1968).

The uncontroverted facts are as follows:

1. Lab specifically authorized FSL and Cabrini to make copies of its software for the purposes of modification and enhancement.

2. Devcom was retained by FSL and Cabrini as permitted by Lab to remove time-bombs and to perform debugging, modification and enhancement services.

3. Devcom obtained a single viewable print-out of certain Lab software from FSL and Cabrini in order to perform such services.

The conclusion is inescapable: Devcom using a copy of certain Lab software that it obtained from FSL and Cabrini, and then solely as agent for these medical centers, performed the very services Lab agreed that they could obtain.

The hornbook law of agency as well as the specific provisions of the two licenses are precisely on point.

V.

THERE IS NO INCONSISTENCY BETWEEN RULE 56 AND LOCAL RULE 12(n) AND THE LOWER COURT CORRECTLY IGNORED NLFC'S 12(n) STATEMENT

In arguing that this Court should void N.D.Ill. Local Rule 12(n), NLFC has ignored (in citing only Rule 53(c)) as well as fundamentally failed to understand Rule 56(e). There is not the least inconsistency with Rule 56(e) and Local Rule 12(n). See, *Celotex*, supra. Under Rule 56(e), a party in the face of affidavits on a motion for summary judgment is not permitted to rely on mere allegations. As provided by Rule 56(e):

> ". . . When a motion for summary judgment is made and supported as provided in this rule, an adverse party may not rest upon the mere allegations or denials of the adverse party's pleading, but the adverse party's response, by affidavits or as otherwise pro-

> vided in this rule, must set forth specific facts showing that there is a genuine issue for trial. If the adverse party does not so respond, summary judgment, if appropriate, shall be entered against the adverse party."

See, also, *Fitzpatrick v. Catholic Bishop of Chicago*, 916 F.2d 1254 (7th Cir. 1990). Local Rule 12(n) merely reiterates the principles of Rule 56(e).

The instant case is not one where summary judgment was entered by default as NLFC suggests. NLFC timely filed its response to Devcom's motion for summary judgment and served Devcom with the same. Also, both the District Court and the Seventh Circuit analyzed the two pieces of evidence and the arguments NLFC propounded. The two cases NLFC cites, *Henry v. Gill Industries, Inc.*, 983 F.2d 943 (9th Cir. 1993) (failure to timely serve papers opposing summary judgment motion) and *Hibernia Nat'l Bank v. Administracion Central Sociedad Anonima*, 776 F.2d 1277 (5th Cir. 1985) (failure to timely file responsive pleadings), are totally irrelevant.

Also, NLFC's statement (Petition, at 16) that "local rule 12(m) allows the . . . district court to grant summary judgment based on the bare allegations contained in a rule 12(m) statement, regardless of . . . the record" is patently not true. By its terms Local Rule 12(m) states that the 12(m) statement "shall consist of short numbered paragraphs, *including within each paragraph specific references to the affidavits, parts of the record, and other supporting materials relied upon to support the facts set forth in that paragraph* (emphasis added)." (Petition, at 5).

This is precisely what Devcom's 12(m) Statement did. Local Rule 12(m) does not permit "bare allegations" as NLFC suggests to this Court. And it does not supplant

the role of "admissions" under the Federal Rules, merely allowing references to admissions to be included within a 12(m) statement.

One need only read page 5 of NLFC's own Petition to understand Local Rule 12(m). NLFC apparently failed to do so.

Finally, to support its conclusion that its 12(n) Statement should not have been rejected, NLFC quotes only one paragraph of the 35 paragraphs in its 12(n) Statement. But even this paragraph lends no support to NLFC's eleventh hour position and is itself a pure legal conclusion that totally mischaracterizes Kristofferson's testimony. The 12(n) Statement had nothing to do with a "statement of material facts" as NLFC's failure to provide this Court implies and as the lower courts found. See, e.g., NLFC Appendix, at 24, 31-32. Perhaps in reply NLFC will include the entirety of its 12(n) Statement for this Court's benefit.

NLFC's Local Rule 12(n) Statement was properly ignored below. Devcom's assertions in its Rule 12(m) Statement, fully supported by record references, were properly deemed admitted and uncontested. See, *Valenti v. Qualex, Inc.*, 970 F.2d 363 (7th Cir. 1992); *Knox v. McGinnis*, 998 F.2d 1405 (7th Cir. 1993); *MacDonald v. Commonwealth Edison Serv. Annuity Fund*, 810 F.Supp. 239 (N.D.Ill. 1993); *ARDC v. Betts*, 149 Bankr. 891 (Bankr.N.D.Ill. 1993) and *Appley v. West*, 929 F.2d 1176 (7th Cir. 1991).

But even if NLFC's 12(n) Statement could somehow have been considered, there was no error. The record is clear that the two pieces of evidence submitted by NLFC (even though Devcom supplied some 20,000 pages of documents in discovery) were all fully considered below.

CONCLUSION

This case has nothing to do with "broad implications . . . for the software industry," even if that standard is appropriate for consideration by this Court. It involves simply interpreting two contracts that Lab itself drafted and then executed.

Devcom prays that this Court deny NLFC's Petition for Writ of Certiorari because the case presents no issues appropriate for this Court's review and because the lower courts' holdings, never addressed in the Petition, were not in error.

Respectfully submitted,

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